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BACKGROUND MATERIAL AND DATA ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

1987 EDITION

MARCH 6, 1987

Prepared for the use of the Committee on Ways and Means by its staff

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PREFACE

This document has been prepared for the use of the Committee on Ways and Means by its staff in conjunction with the committee's consideration of possible revisions in the various programs under its jurisdiction.

The book is divided into five parts:

Part 1—Description of programs providing benefits or services to individuals within the jurisdiction of the Committee on Ways and Means.

Part 2—Description of trust funds for which the Committee on Ways and Means has revenue jurisdiction.

Part 3—Revenues.

Part 4—Other matters within the jurisdiction of the Committee on Ways and Means including public debt, the Pension Benefit Guaranty Corporation, and the Federal Financing Bank.

Part 5—Budget tables, description of fiscal year 1988 Administration budget proposals and description of the Balanced Budget and Emergency Deficit Control Act of 1985.

Within part 1, there are summary tables indicating the relative size and recent growth of the individual programs. For each of the programs, there is extensive information on:

(a) Who is eligible for the program;

(b) How the payment is actually computed;

(c) How the program is financed, and for programs financed from trust funds, the shortrun and longrun financial solvency of those funds;

(d) Characteristics of individuals served by the program;

(e) Interactions with other major programs, and

(f) Historical information about how the program has evolved.

For the programs described in part 2, a brief legislative history, the current financing mechanism, and the financial status of the trust fund is presented.

Finally, the document contains 15 appendices setting out in detail:

(a) Statistical history of the social security programs;

(b) Tables describing the demographic and economic resources of the elderly;

(c) Health status health utilization and health care expenditures by the elderly;

(d) National health expenditures and health insurance coverage;

(e) How medicare reimburses hospitals;

(f) How medicare reimburses physicians;

(g) A description of the medicaid program;

(h) Unemployment data and historical tables on unemployment compensation;

(i) A short description of the food stamp program;

(j) Demographic economic chartacteristics of families with children;

(k) Selected economic and population data for the United States and by State;

(l) A description of quality control statistics.

(m) Description of the major social programs not within the jurisdiction of the committee;

(n) Excerpts from the Congressional Budget Act; and

(o) Committee on Ways and Means reports to the Budget Committee.

The committee wishes to express its appreciation to the many individuals for their contributions and long hours toward completing this project. In particular the committee wishes to recognize:

(1) The Congressional Research Service of the Library of Congress for assistance in preparing section 6 of part 1, section 1 of part 2, section 2 of part 3, and Appendices C, D, E, F, G, H, and I; their assistance in updating the tables in sections 7, 8, and 11 of Part 1 and Appendices B and J;

(2) The Congressional Budget Office for Appendices C and M, analysis of welfare receipt in Appendix J, budget tables in section 1 of part 5, updating tables in Appendices B and J and the projections of the OASI, DI, and HI trust funds;

(3) The Office of Research and Statistics (Social Security Administration) for its assistance in updating the tables in sections 1, 2, 3 and 9 or part 1, Appendix A, and for some of the tables in Appendix B;

(4) The Health Care Financing Administration for updating tables in section 4 of part 1 and Appendices D, E, F, and G;

(5) The Office of the Actuary (Social Security Administration) for assistance with section 3 of part 1;

(6) The Department of Labor for their assistance in updating tables in section 6 and 7 of part 1 and Appendix H;

(7) The staff of the Railroad Retirement Board for their assistance in updating sections 15 and 16 in part 2;

(8) The Office of Family Assistance and the Office of Child Support Enforcement (Department of Health and Human Services) for assistance in updating tables in sections 7, 8, 10, and 11 of part 1 and Appendix L, especially for the special tabulations of AFDC characteristics and the help in providing information for the Social Services Block Grant Program;

(9) The Joint Committee on Taxation for preparation of section 12 of part 1; and

(10) Greg Duncan and Debbie Laren of the Institute for Social Research, University of Michigan, for doing the special tabulations of the Panel Study of Income Dynamics which are shown in table 30 in the AFDC program description section.

This material has been assembled in a limited amount of time in order that it be available to the Members for use in connection with their deliberations on various budget issues presently pending before the committee. Comments as to how the contents or format of this document could be improved are most appreciated and will help in future revisions so that it can better serve as a resource tool.

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PART 1

DESCRIPTION OF PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS PROVIDING BENEFITS OR SERVICES TO INDIVIDUALS

Section 1. The Old-Age and Survivors Insurance Program (OASI)

The old-age and survivors insurance (OASI) program provides monthly benefits to retired workers and their dependents and to survivors of insured workers. Old-age retirement benefits were provided for retired workers by the original Social Security Act of 1935, and benefits for dependents and survivors were provided by the 1939 amendments. The disability insurance (DI) program, enacted in 1956, and the hospital insurance (HI) program, enacted in 1965, are closely related to the old-age and survivors insurance program. (These related programs are discussed in the later sections.)

General

A worker builds protection under these programs through employment which is covered by the social security system. Coverage is generally compulsory. However, employees of State and local governments are covered on a voluntary group basis. Currently, over 90 percent of the nation's workforce is covered either voluntarily or mandatorily.

Contributions are made under the Federal Insurance Contributions Act (FICA, chapter 21 of the Internal Revenue Code). Contributions are based on wages and earnings up to the annual maximum taxable wage base $43,800 in 1987. The employee contribution is withheld from wage and salary payments to employees and is matched by employers. Self-employed persons (SECA, chapter 2 of the Internal Revenue Code) pay contributions on their net earnings annually up to the same maximum as employees, but at a rate that is equal to the combined employee-employer tax rate. Until 1990, a general revenue credit is available to offset part of the SECA contribution.

A portion of OASDI tax revenue is credited automatically to the Old-Age and Survivors Insurance Trust Fund. In addition, the revenue derived from the taxation of a portion of Social Security retirement and survivors' benefits is deposited in the OASI trust fund. The trust fund is the source of payment for: (1) monthly benefits when the worker retires, or dies (including a financial interchange with the railroad retirement system) and (2) administrative expenses for the program. No funds are disbursed for any other purpose.

Benefits

Summary

Monthly cash benefits under OASI are paid as a matter of earned right to workers who are insured for benefits and to their eligible dependents and survivors. Generally, benefit amounts paid both to the insured worker and to the insured worker's dependents

or survivors are related to the past earnings of the insured worker. An individual may be entitled to benefits as a worker based on his own earnings history and also to benefits as a dependent of another worker. However, the amount of the benefit is adjusted so that, in effect, only the larger of the two benefits is paid.

In December 1986, there were 37.7 million beneficiaries in the old-age and survivors insurance and disability insurance programs who were in current-payment status. Monthly benefits paid out were $16.5 billion.

The following table summarizes various types of beneficiaries and average benefit amounts:

TABLE 1.—OASDI CASH BENEFITS IN CURRENT-PAYMENT STATUS, DECEMBER 1986

	Number (thousands)	Percent of beneficiary population	Average monthly benefit
Total monthly beneficiaries	37,708	100.0	$439
Retired workers	22,987	61.0	488
Wives and husbands of retired workers	3,088	8.2	252
Children of retired workers	450	1.2	204
Disabled workers	2,727	7.2	488
Wives and husbands of disabled workers	301	.8	131
Children of disabled workers	965	2.6	141
Widowed mothers and fathers	350	.9	338
Surviving children	1,875	5.0	337
Widows and widowers	4,825	12.8	444
Disabled widow(er)s	106	.3	320
Parents	9	.02	387
Special age-72	25	.1	140

Source: Office of Research and Statistics, Social Security Administration.

Description of major benefit types

Child's benefit. A monthly benefit is payable to an unmarried child or eligible grandchild of a retired or disabled worker or of a deceased worker who was fully or currently insured at death if the child or grandchild is: (1) under age 18; (2) a full-time elementary or secondary student under age 19; (3) a dependent disabled person aged 18 or over whose disability began before age 22. A grandchild is eligible for benefits on a grandparent's earnings record (or that of the spouse of such worker) if he is dependent on the grandparent for at least half his support and his parents are either disabled or deceased or, where a parent is alive, the grandparent is dead and the child has been adopted by the surviving grandparent.

Lump-sum death benefit. A lump-sum payment is payable on the death of a fully or currently insured worker to the surviving spouse who was living with the deceased worker or was eligible to receive monthly cash survivor benefits upon the worker's death. If there is no eligible spouse, the lump-sum death payment is payable to any child of the deceased worker who is eligible to receive

monthly cash benefits as a surviving child. If there is no surviving spouse and no children of the worker eligible for monthly benefits, then no one is eligible to receive the lump-sum death payment. The payment amount is $255.

Minimum benefit. The minimum benefit is the smallest benefit (before actuarial reduction or earnings test reduction) payable to a worker or his survivors/dependents. In 1977, the minimum benefit was frozen at $122 per month for all workers who became disabled after 1978 and all survivors of workers who died after 1978. The new frozen minimum of $122 was to have applied to all retired workers reaching age 62 in 1984 or later. However, legislation in 1981 eliminated the minimum benefit for all persons becoming eligible for benefits in January 1982 or later (except for certain members of religious orders who have taken a vow of poverty; such persons are exempt from the new law for ten years). These persons will have their benefits computed under the regular benefit computation rules. Persons already eligible for benefits prior to January 1, 1982 will be able to continue receiving the minimum benefit, which are subject to annual cost-of-living adjustments.

Mother's or father's benefit. A monthly benefit is payable to a widow (widower) or surviving divorced mother (father) if: (1) the deceased worker on whose account the benefit is paid was fully or currently insured at time of death and (2) the widow (widower) or surviving divorced mother (father) has one or more entitled children of the worker in his care. These payments continue until the youngest child being cared for reaches age 16.

Parent's benefit. This is the monthly benefit payable to a dependent parent, age 62 or over, of a deceased fully insured worker.

Retired-worker (old-age) benefit. This is the monthly benefit payable to a retired worker aged 62 or over who is fully insured or to a person entitled under the transitional insured-status provision in the law.

"Special age-72" benefit. This is the monthly benefit payable to certain persons born before January 2, 1900, who do not have sufficient quarters of coverage to qualify for a retired-worker benefit under either the full or the transitional insured-status provisions. The benefit is payable only for months in which the individual is a resident of the 50 States or the District of Columbia and receives no public assistance money payments or SSI payments. It is reduced by the amount of any government pension (except workers' compensation and veterans' service-connected compensation) that the individual is receiving or is eligible to receive. When husband and wife are both eligible for these benefits, a full benefit is paid to each spouse.

Special minimum (primary insurance amount) benefit (OASDI). This is a benefit based upon an alternative PIA which is not based on the worker's average monthly wage or average indexed monthly earnings but on his/her length (years) of covered employment. It is designed to help those who worked in covered employment for many years but had low earnings. The amount of the special minimum is computed by multiplying the number of years of coverage in excess of 10 and up to 30 by $11.50 for monthly benefits payable in 1979, with automatic cost-of-living increases applicable to years 1979 and later. The number of years of coverage equals the

number, not to exceed 14, obtained by dividing total creditable wages in 1937–50 by $900, plus the number of years after 1950 for which the worker is credited with at least 25 percent of the annual maximum taxable earnings. For this purpose for years after 1978, annual maximum taxable earnings are based on only the automatic adjustment provisions. The special minimum benefit is not subject to the delayed-retirement-credit provisions.

Spouse's benefit. This is the monthly benefit payable to a spouse or divorced spouse of a retired or disabled worker under one of the following conditions: (1) spouse is aged 62 or older or is caring for one or more entitled children of the worker who have not achieved age 16; (2) divorced spouse is aged 62 or older, is not married, and the marriage to the worker had lasted 10 years before the divorce became final; or (3) wife was born before January 2, 1897, and husband is transitionally insured.

Widow's or widower's benefit. These are monthly benefits payable to: (1) a widow(er) or surviving divorced spouse of a worker fully insured at the time of death if he or she is unmarried, or remarriage occurred after the widow(er)'s first eligibility for benefits; and (a) is aged 60 or older or (b) aged 50–59 and has been disabled throughout a waiting period of 5 consecutive calendar months that began no later than 7 years after the month the worker dies or after the end of her entitlement to benefits as a widowed mother; or (2) a widow of a transitionally insured worker if she was born before January 2, 1897.

Benefit Eligibility: Insured Status

Benefits can only be paid to workers, their dependents or survivors if the worker is "insured" for these benefits. Insured status is measured in terms of "quarters of coverage."

TABLE 2.—AMOUNT OF COVERED EARNINGS NEEDED TO EARN ONE QUARTER OF COVERAGE SINCE 1977

1978	$250
1979	260
1980	290
1981	310
1982	340
1983	370
1984	390
1985	410
1986	440
1987	460
1988	[1] 470
1989	[1] 500
1990	[1] 530

[1] 1986 OASDI Trustee's Report (II–B projection).

Prior to 1978, one quarter of coverage was earned for each calendar quarter in which a worker was paid $50 or more in wages for covered employment (except for agricultural labor). Since the beginning of 1978 the crediting of quarters of coverage has been on

an annual rather than a quarterly basis. In 1978, a worker earned one quarter of coverage, up to a total of four, for each $250 of annual earnings reported from covered employment or self-employment. The amount of annual earnings is subject to annual automatic increases, effective in January, in proportion to increases in average wages in the economy.

For the purpose of the OASI program, there are two types of insured status: "fully insured" and "currently insured." Workers are fully insured for benefits for themselves and for their families if they have one quarter of coverage (earned at any time after 1936) for every four quarters elapsing after 1950, or the year of reaching age 21, if later, up to the year in which they reach age 62. Fully insured status is required for eligibility for all types of benefits except certain survivor benefits. A person must have at least six quarters of coverage to be fully insured. A person with 40 quarters of coverage is fully insured for life.

Workers are currently insured if they have six quarters of coverage during the thirteen calendar quarters ending with the quarter in which they died. Currently insured status by itself provides that the worker's surviving family members are eligible for child's, mother's, father's and lump-sum survivor benefits.

Table 3 indicates the type of insured status which is required for the various monthly benefit categories.

TABLE 3.—INSURED STATUS REQUIREMENTS FOR VARIOUS MAJOR BENEFIT CATEGORIES

Type of benefit	Basic eligibility requirements
Retirement	Fully insured.
Dependents:	
Wives, husbands	Worker entitled.
Mothers, fathers, children, grandchildren	Worker entitled.
Survivors:	
Dependent parents—age 62	Worker fully insured.
Widows, widowers	Worker fully insured.
Mothers, fathers, children	Worker fully or currently insured.
Lump-sum death	Worker fully or currently insured.

Benefit Computation

The amount of a monthly benefit award is determined by first computing an insured worker's average monthly wage (AMW) or—in the case of most workers who attain age 62, become disabled, or die after 1978—average indexed monthly earnings (AIME). The AMW is used in computing benefits under the old (coupled) benefit formula, and the AIME is used in computing benefits under the new (decoupled) benefit formula enacted in 1977. The AMW or AIME is linked (by a table in the law or by a formula, respectively) to the monthly retirement benefit payable at that worker's normal retirement age. This amount is called the primary insurance

amount (PIA). Benefits for dependents and survivors are calculated as a percentage of the insured worker's PIA. The calculated amounts may be subject to minimum levels, and all benefits are subject to maximum limits which are stated in the law. Benefits payable to workers, spouses, widows and widowers who choose to retire before their normal retirement age are subject to an actuarial reduction. Benefits payable to workers who choose to retire after their normal retirement age are subject to increase through the delayed retirement credit, as are the benefits payable to their spouses, widows, and widowers.

The normal retirement age

The normal retirement age is the earliest age at which unreduced retirement benefits can be received. The normal retirement age is presently age 65, but will be gradually increased to age 67 beginning in 2000.[1] For persons attaining age 62 in 2000, the normal retirement age will be increased by 2 months—to age 65 and 2 months. In each succeeding year, the normal retirement age will be increased by 2 additional months until it reaches age 66 for persons attaining age 62 in 2005. The normal retirement age will then remain at age 66 for persons attaining age 62 through 2016. Beginning with persons attaining age 62 in 2017, the normal retirement age will again increase by 2 months each year, until it reaches age 67 for persons attaining age 62 in 2022 and later. (See table 4 for the exact schedule in increases in the normal retirement age.)

Average indexed monthly earnings (AIME)

The AIME is a dollar amount which represents the average monthly earnings, adjusted for change in average wages in the economy, which was received by the worker during his covered employment. Indexing creates an earnings record that reflects the value of the individual's earnings relative to national average earnings in the indexing year. The indexing year is the second year before the year in which the worker attains age 62, becomes disabled, or dies. Earnings after the indexing year are counted at their nominal value.

There are four steps in the calculation of the AIME: (1) indexing the worker's earnings for each year after 1950 by dividing the worker's posted earnings for the year being indexed by the average wages of all workers in that same year and multiplying this result by the average earnings in the indexing year, (2) determining the number of computation years—the number of years after 1950 (or the year of attainment of age 21, if later) and up to the year worker attains age 62, becomes disabled, or dies, minus dropout years, generally 5 (minimum number of computation years is 2); (3) selecting the actual computation years, based on highest earnings, from any year after 1950; and (4) dividing the sum of earnings in the computation years by the total number of months in the computation years.

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[1] Changes in the normal retirement are a result of the Social Security Amendmenta of 1983 (P.L. 98-21).

These computations are illustrated in table 5 for three different workers retiring in 1987 at age 62. The actual earnings for the three workers are shown in the first three columns. These are multiplied by the indexing factor (column 4) to arrive at indexed earnings (last 3 columns of table 4). The indexing factor for 1951 is average wages when an individual turned 60 ($16,823) divided by average wages for 1951 ($2,799). The lowest 5 years of indexed earnings may be dropped. For example, a lifelong full-time worker earning the minimum wage would be able to drop earnings in 1973, 1983, 1984, 1985, and 1986, and would have total indexed earnings of $275,581 (see table 5). Dividing this by the number of months in the computation period (31 years×12 months=372 months) results in an average indexed monthly earnings (AIME) of $740. The corresponding AIME's for the average and maximum earners are $1,403 and $2,205.

TABLE 4.—INCREASES IN NORMAL RETIREMENT AGE FOR PERSONS REACHING AGE 62 IN EACH YEAR 1986 AND LATER

Year of birth	Year of attainment of age 62	Normal retirement age
1924	1986	65.
1925	1987	65.
1926	1988	65.
1927	1989	65.
1928	1990	65.
1929	1991	65.
1930	1992	65.
1931	1993	65.
1932	1994	65.
1933	1995	65.
1934	1996	65.
1935	1997	65.
1936	1998	65.
1937	1999	65.
1938	2000	65, 2 mo.
1939	2001	65, 4 mo.
1940	2002	65, 6 mo.
1941	2003	65, 8 mo.
1942	2004	65, 10 mo.
1943–54	2005–16	66
1955	2017	66, 2 mo.
1956	2018	66, 4 mo.
1957	2019	66, 6 mo.
1958	2020	66, 8 mo.
1959	2021	66, 10 mo.
1960 and later	2022 and later	67.

TABLE 5.—EARNINGS HISTORIES FOR HYPOTHETICAL WORKERS AGE 62 IN 1987

[Rounded to the nearest dollar]

Year	Nominal earnings			Indexing factor	Indexed earnings		
	Minimum [1]	Average [2]	Maximum [3]		Minimum	Average	Maximum
1951	1,560	2,799	3,600	6.0098	9,375	[4] 16,823	21,635
1952	1,560	2,973	3,600	5.6578	8,826	[4] 16,823	20,368
1953	1,560	3,139	3,600	5.3584	8,359	[4] 16,823	19,290
1954	1,560	3,156	3,600	5.3309	8,316	[4] 16,823	[4] 19,191
1955	1,560	3,301	4,200	5.0955	7,949	[4] 16,823	21,401
1956	1,993	3,532	4,200	4.7624	9,491	16,823	20,002
1957	2,080	3,642	4,200	4.6194	9,608	16,823	19,401
1958	2,080	3,674	4,200	4.5790	9,524	16,823	19,232
1959	2,080	3,856	4,800	4.3629	9,075	16,823	20,942
1960	2,080	4,007	4,800	4.1982	8,732	16,823	20,151
1961	2,184	4,087	4,800	4.1163	8,990	16,823	19,758
1962	2,392	4,291	4,800	3.9201	9,377	16,823	[4] 18,816
1963	2,461	4,397	4,800	3.8262	9,416	16,823	[4] 18,366
1964	2,600	4,576	4,800	3.6760	9,558	16,823	[4] 17,645
1965	2,600	4,659	4,800	3.6110	9,389	16,823	[4] 17,333
1966	2,600	4,938	6,600	3.4065	8,857	16,823	22,483
1967	2,886	5,213	6,600	3.2268	9,312	16,823	21,297
1968	3,293	5,572	7,800	3.0192	9,942	16,823	23,550
1969	3,328	5,894	7,800	2.8543	9,499	16,823	22,263
1970	3,328	6,186	7,800	2.7193	9,050	16,823	21,211
1971	3,328	6,497	7,800	2.5892	8,617	16,823	20,196
1972	3,328	7,134	9,000	2.3581	7,848	16,823	21,223
1973	3,328	7,580	10,800	2.2193	[4] 7,386	16,823	23,968
1974	3,883	8,031	13,200	2.0948	8,134	16,823	27,651
1975	4,368	8,631	14,100	1.9491	8,514	16,823	27,482
1976	4,784	9,226	15,300	1.8233	8,723	16,823	27,896
1977	4,784	9,779	16,500	1.7202	8,229	16,823	28,383
1978	5,512	10,556	17,700	1.5936	8,784	16,823	28,207
1979	6,032	11,479	22,900	1.4654	8,840	16,823	33,559
1980	6,448	12,513	25,900	1.3444	8,668	16,823	34,819
1981	6,968	13,773	29,700	1.2214	8,511	16,823	36,276
1982	6,968	14,531	32,400	1.1577	8,067	16,823	37,509
1983	6,968	15,239	35,700	1.1039	[4] 7,692	16,823	39,409
1984	6,968	16,135	37,800	1.0426	[4] 7,265	16,823	39,410
1985	6,968	16,823	39,600	1.0000	[4] 6,968	16,823	39,600
1986	6,968	[5] 17,493	42,000	1.0000	[4] 6,968	[5] 17,493	42,000

[1] Worker with annual earnings equal to annualized Federal minimum wage.
[2] Worker with annual earnings equal to the SSA average wage index.
[3] Worker with annual earnings equal to the social security taxable maximum earnings.
[4] Dropout years.
[5] Estimate based on Alternative II–B assumptions in 1986 Trustees Report.

Average monthly wage (AMW)

The AMW, which is used in computing benefits under the old (coupled) benefit formula, is computed by: (1) determining the number of computations years—the number of years after 1950 (or the year of attainment of age 21, if later) and up to the year the worker attains age 62 (age 65 for men born before January 2, 1911, and the later of age 62 or the year 1975 for men born after January 1, 1911), onset of disability or death, minus dropout years, generally 5 (minimum number of computation years is 2); (2) selecting the actual computation years, based on highest nonindexed earnings, for any year after 1950; and (3) dividing the sum of nonindexed earnings in the computation years by the total number of months in the computation years.

Primary insurance amount (PIA)

The monthly benefit amount payable to a retired worker who begins to receive benefits at his normal retirement age is his PIA truncated to the next lower dollar. The PIA is used as a base for computing all benefits which are payable on the basis of that worker's earnings record.

The method of determining the PIA depends on whether an AIME or an AMW was computed for the worker. (This, of course, is determined on the basis of the worker's date of birth.) If an AMW has been computed for the worker, the PIA is determined through reference to benefit tables which are updated and published annually.

Under the transitional guarantee provision of the 1977 amendments (which is applicable only to workers who attain age 62 in 1979–83) if the PIA computed under the special guarantee is higher than under the AIME method, benefits are determined on the basis of the frozen 1978 benefit table.

In cases where an AIME has been computed, the PIA is determined by applying the "primary benefit formula" to the AIME. For a worker reaching age 62 in 1987, the PIA equals 90 percent of the first $310 of AIME, 32 percent of the next $1,556 of AIME, and 15 percent of the AIME above $1,866. Applying this formula to the AIME's of the three example workers results in PIA's of $416.60 for the minimum-wage worker, $628.70 for the average-wage worker, and $827.70 for the maximum-wage worker. The numbers $310 and $1,866 are often referred to as "bend points." These are adjusted each year by change in average wages.

After the year of initial eligibility (age 62 for retired worker benefits), the PIA is increased each year for the increase in the Consumer Price Index (CPI). Thus, the PIA's of $416.60 $628.70 and $827.70 would have been for January through November 1987, and will be increased by the cost-of-living adjustment that will increase the December 1987 benefits under current law.

Benefit Amounts

The monthly benefit amount payable to a retired worker who begins to receive benefits at this normal retirement age is his PIA truncated to the next lower dollar. However, the actual benefit payable may be an amount different than the PIA.

Workers attaining age 62 before 2000 who retire before age 65 will receive a benefit with an actuarial reduction. Retirement after age 65 results in an actuarial increase in the benefit payable.

When the normal retirement age begins to increase in the year 2000, the minimum age of eligibility for reduced benefits will remain unchanged at age 62 (age 60 for widows and widowers). However, there will be corresponding increases in the amount of reduction for early retirement. The amount of reduction will be 5/9 of 1 percent for each of first 36 months of early retirement (as under present law), and 5/12 of 1 percent for each month in excess of 36. Thus, for persons attaining age 62 during 2005–16, for whom the normal retirement age will be 66, the reduced benefit payable at age 62 will be 75 percent of the PIA. For persons attaining age 62 in 2022 and later, for whom the normal retirement age will be 67, the reduced benefit payable at age 62 will be 70 percent of the PIA. (See table 6.) There will be no increase in the maximum reduction for widow(er)s.

TABLE 6.—SCHEDULE OF BENEFITS, AS A PERCENTAGE OF PIA, PAYABLE AT SELECTED AGES, FOR PERSONS REACHING AGE 62 IN EACH YEAR 1986 AND LATER

Year of attainment of age 62	Benefit, as a percentage of PIA, beginning at age—		
	62	65	67
1986	80	100	106
1987	80	100	107
1988	80	100	107
1989	80	100	108
1990	80	100	108
1991	80	100	109
1992	80	100	109
1993	80	100	110
1994	80	100	110
1995	80	100	111
1996	80	100	111
1997	80	100	112
1998	80	100	112
1999	80	100	113
2000	79 1/6	98 8/9	111 11/12
2001	78 1/3	97 7/9	111 2/3
2002	77 1/2	96 2/3	110 1/2
2003	76 2/3	95 5/9	110
2004	75 5/6	94 4/9	108 3/4
2005–16	75	93 1/3	108
2017	74 1/6	92 2/9	106 2/3
2018	73 1/3	91 1/9	105 1/3
2019	72 1/2	90	104
2020	71 2/3	88 8/9	102 2/3
2021	70 5/6	87 7/9	101 1/2
2022 and later	70	86 2/3	100

Auxiliary benefit amounts are also based on the worker's PIA. Table 7 lists major types of benefit with the percent of the insured worker's PIA which is paid.

TABLE 7.—PERCENTAGE OF PRIMARY INSURANCE AMOUNT (PIA) PAID FOR DEPENDENT'S AND SURVIVOR'S BENEFITS

Type of monthly benefit	Percent of PIA
Dependents: [1]	
Wives, husbands—age 65	[3] 50.0
Mothers, fathers, children, grandchildren	50.0
Survivors: [1]	
Widows, widowers—age 65 [2]	[3] 100.0
Dependent parent—age 62	82.5
Widows, widowers, disabled—age 50	71.5
Mothers, fathers, children	75.0

[1] Subject to maximum family benefit limitation.
[2] Subject to general limitation that survivor cannot get a higher benefit than deceased worker would be getting if alive.
[3] These percentages decrease as the normal retirement age increases beginning in the year 2000.

Benefit Reduction and Increase

Social Security benefits may be reduced, withheld or increased for several reasons, chiefly on account of early retirement, delayed retirement, and on account of earnings in excess of the exempt amount provided in the law ($8,160 in 1987 for beneficiaries between age 65 and 70). In addition, there is an overall limit on the total amount of benefits which can be paid at one time on the basis of any one earnings record.

Actuarial reduction. This is the reduction in monthly benefit amount payable: (a) on entitlement at ages 62–64 if the beneficiary is a retired worker, a spouse of a retired or disabled worker (with entitlement not dependent on having a child beneficiary in their care), or a divorced spouse; (b) on entitlement at age 60–64 if the beneficiary is a widow, widower, or a surviving divorced spouse; or (c) on entitlement, in case of disability, at ages 50–59 if the beneficiary is a widow, widower, or surviving divorced spouse.

At the time of award, the following reductions in benefit amount are made for:

A retired-worker beneficiary—5/9 of 1 percent for each month of entitlement before age 65 (maximum reduction of 20 percent);

A wife or husband beneficiary—25/36 of 1 percent for each month of entitlement before age 65 (maximum reduction of 25 percent);

A widow including surviving divorced spouse—19/40 of 1 percent for each month of entitlement between age 60 (maximum reduction of 28.5 percent) and age 65. Disabled widow(er)s ages 50 to 59 receive 71.5 percent of the PIA.

The benefit continues to be paid at a reduced rate even after age 65, except that the reduced rate is refigured at age 65 for all beneficiaries and also at age 62 for a widow, widower, and a surviving

divorced spouse to omit months for which the reduced benefits was not paid and to take into account any additional earnings. Data on benefit awards to retired workers in 1986 indicates that 74 percent of all such awards were actuarially reduced benefits (70 percent for men, 79 percent for women).

Delayed retirement credit. A credit due a worker for delayed retirement after attaining age 65 for each month the worker: (1) was fully insured, (2) had attained age 65 but was not yet age 70, and (3) did not receive benefits because the worker had not filed an application or was working. Each monthly credit serves as a basis for increasing the monthly benefit (unless the benefit is based on a special minimum PIA) by 1/12 of 1 percent for workers who attained age 62 before 1979 and by ¼ of 1 percent for workers attaining age 62 after 1978. The increase is applicable to the worker's monthly benefits amount but not to his PIA. Hence, auxiliary benefits are generally not affected. The exception is that a surviving spouse (including divorced) receiving widow(er)'s benefits is entitled, for months after May 1978 to the same increase that had been applied to the benefit of the deceased worker or for which the worker was eligible for at the time of death.

As a result of the Social Security Amendments of 1983, beginning with workers who attain age 65 in 1990, the increment for delaying retirement past the normal retirement age will increase by ½ of 1 percent every second year, from 3 percent per year of delayed retirement for workers attaining age 65 in 1982–89, until reaching 8 percent per year of delayed retirement for workers attaining normal retirement age (age 66) after 2008.

Maximum family benefit. The maximum monthly amount that can be paid on a worker's earnings record varies with his PIA. For benefits payable on the earnings records of retired and deceased workers, the maximum varies between 150 and 188 percent of the PIA. No more than the established maximum can be paid to a family regardless of the number of beneficiaries entitled on that earnings record. The family maximum is computed by adding fixed percentages of dollar amounts which are part of the PIA. For the family of a worker who becomes age 62 or dies in 1987, the total amount of benefits payable to them will be:

150 percent of the first $396 PIA, plus;
272 percent of PIA from $396 through $571, plus;
134 percent of PIA from $571 through $745, plus;
175 percent of PIA over $745.

The dollar amounts in this benefit formula (i.e. the "bend points") are adjusted annually by the same index used to update the bend points in the primary benefit formula.

Whenever the total of the individual monthly benefits payable to all the beneficiaries entitled on one earning record exceeds the maximum, each dependent's or survivor's benefit is proportionately reduced to bring the total within the maximum.

In computing the total of the individual monthly benefits for entitlements based on a single earnings record, a benefit payable to a divorced spouse or to a surviving divorced wife is not included.

Withholding. This is the suspension of benefit payments until the conditions causing deductions are known to have ended. Reasons for withholding benefits include: (1) earnings by a beneficiary

(or any dependent drawing benefits on his earnings record) under age 70 from either covered or noncovered employment which exceeds the annual allowable amount (this is known as the "retirement test"); (2) failure of a wife under age 62 or mother or father beneficiary to have an entitled child in her care; (3) for special age-72 beneficiaries, receipt of public assistance or supplemental security income (SSI) payments or offsetting government pensions; (4) the payee is not determined; and (5) administrative reasons.

Under the "retirement test" the maximum allowable annual earnings without benefits being withheld is $8,160 in 1987 for beneficiaries aged 65 to 69 ($6,000 for beneficiaries under age 65). This amount is known as the "exempt amount." Benefits are reduced by $1 in benefits for every $2 in annual earnings above the exempt amount. The exempt amount is indexed to rises in the average wage in the economy. Each year that an automatic benefit increase occurs, the exempt sum of earnings is adjusted for wage increases, effective January 1. If average wages in the economy fall in a particular year, the exempt amount would not be lowered. The law provides that it may not be reduced. According to the 1986 Social Security Trustee's Report, the annual "exempt amounts" for the next 4 calendar years are projected to be as follows:

	Under age 65	Age 65 through 69
1986	5,760	7,800
1987	6,000	8,160
1988	[1] 6,240	[1] 8,400
1989	[1] 6,600	[1] 8,880
1990	[1] 6,960	[1] 9,360
1991	[1] 7,440	[1] 9,960

[1] Estimated.

Source: 1986 OASI Trustee's Report, Alternative II–B, page 114.

Beginning in 1990, the benefit withholding rate under the retirement test will be reduced from $1 for each $2 of earnings over the annual exempt amount to $1 for each $3 of excess earnings, for beneficiaries who have reached the normal retirement age (age 65 in 1990–99). When the normal retirement age begins to increase in 2000, the age at which the reduced withholding rate will apply will also increase.

As a result of a legislative change in the Deficit Reduction Act of 1984, the Social Security Administration has begun to request earlier reports of earnings from beneficiaries who are most likely to have earnings in excess of the exempt amount. These beneficiaries may thus have their benefits ceased in the actual year of excess earnings, rather than receiving overpayments which must then be recouped later.

Some of the administrative reasons for withholding benefits are: (a) refusal of beneficiary to accept checks for personal reasons; (b) beneficiary's residence in certain foreign countries; and (c) under certain conditions, an alien beneficiary's residence outside the United States for more than 6 full consecutive calendar months.

Suspension of monthly benefit payments does not affect eligibility for hospital insurance benefits.

Automatic Benefit Adjustments

Benefit increases for social security and SSI recipients are based on increases in the cost of living as measured by the Bureau of Labor Statistics' Consumer Price Index (CPI). As a result of a provision contained in the Omnibus Budget Reconciliation Act of 1986, it is no longer necessary for the rise in the CPI to exceed 3 percent in order to trigger the annual cost-of-living adjustment (COLA). A COLA will now be provided in any year in which there is a measureable increase in consumer inflation.

Prior to 1984, the change in the CPI was measured from the first calendar quarter of the base year to the first calendar quarter of the current year. However, the benefit increases in 1984 and later years will be based on the CPI increase from the third quarter of the base year through the third quarter of the year in which the benefit increase becomes effective. In addition, benefit increases beginning with the January 1986 check *are* based upon a price index in which the housing component is measured on a rental equivalence basis.

If the assets of the combined OASI and DI trust funds are below a certain reserve ratio (15 percent for 1984 through 1988, and 20 thereafter) and wages increase at a rate lower than inflation, the automatic benefit increase will be based on wage growth rather than inflation. (See Appendix I for a more detailed discussion of this provision.)

The Secretary of Health and Human Services (HHS) is required by law to publish the amount of the increase in the Federal Register within 45 days after the close of the measuring period. The benefit increase is effective in December and first appears in January benefit checks, i.e., 3 months after the close of the measuring period. (Prior to 1983 the benefit adjustment was effective in June and payable in July.)

Since a benefit increase was effective in 1985, that year became the base for the 1986 benefit increase. The CPI for the third quarter of 1985 was 319.7. This was the arithmetical average of the CPI for July, August and September, 1985.

Month in 1985:	CPI
July	319.1
August	319.6
September	320.5
Total	959.2

The average CPI for the 3rd quarter of 1985 is thus:

$$959.2/3=319.7$$

2. The CPI for the third quarter of 1986 was 323.7. This was the arithmetical average of the CPI for July, August and September, 1986.

Month in 1986:	CPI
July	322.9
August	323.4
September	324.9
Total	971.2

The average CPI for the 3rd quarter of 1986 is thus:

$$971.2/3=323.7$$

3. The percentage increase in the CPI from the third quarter of 1986 to the third quarter of 1985 is:

$$(323.7-319.7)/319.7=1.3 \text{ percent}$$

The benefit increase is rounded to the nearest 0.1 percent. It applies to all types of beneficiaries.

Taxation of Social Security (OASDI) Benefits for Higher-Income Persons

Beginning in 1984, as much as one-half of OASDI benefits (and railroad retirement tier 1 benefits) are included in taxable income for taxpayers with incomes above certain base amounts. The sum of a taxpayer's (1) adjusted gross income, (2) tax-free interest income and (3) one-half of OASDI benefits is compared to a base amount of $25,000 for a single taxpayer, or $32,000 for a married couple filing a joint tax return. If the sum exceeds the base amount, the amount of benefits to be included in taxable income is the lesser of:

(a) one-half of the excess of such sum over the base amount, or
(b) one-half of the amount of benefits received.

The revenue raised by this taxation of benefits is automatically transferred to the OASDI Trusts Funds.

The following table contains several examples which illustrate the taxation of Social Security benefits.

EXAMPLES

		A	B	C	D	E
(1)	Type of taxpayer	Single	Single	Couple	Couple	Couple
(2)	Adjusted gross income	16,000	23,000	24,000	28,000	50,000
(3)	Tax-free interest income	0	0	0	3,000	2,000
(4)	Social Security	$4,000	$8,000	$3,000	$6,000	$10,000
(5)	Sum of lines (2) plus (3) plus one-half of (4).	18,000	27,000	25,500	34,000	57,000
(6)	Base amount	25,000	25,000	32,000	32,000	32,000
(7)	Excess amount (line (5) minus (6)).	−7,000	2,000	−6,500	2,000	25,000

EXAMPLES—Continued

	A	B	C	D	E
(8) Amount of Social Security which is taxed. If line (7) is positive, lesser of one-half of lines (7) or (2). If line (7) is zero or negative, enter 0.	0	1,000	0	1,000	5,000

The proceeds from the taxation of social security benefits are deposited in the OASDI trust funds. The revenue derived from the taxation of benefits is as follows:

Fiscal year:	Millions
1984	$2,275
1985	3,368
1986	3,551
1987 (projected)	3,383

For calendar year 1984, there was an estimated 2.6 million tax returns with some social security benefits in adjusted gross income.

Legislative Changes Made in the 97th Congress

The 97th Congress made numerous changes in the old-age and survivors insurance program. The major changes were included in the Omnibus Budget Reconciliation Act (Public Law 97-35). Table 8 lists these changes and contains the most recent Congressional Budget Office estimates of their budgetary impact.

TABLE 8.—CONGRESSIONAL BUDGET OFFICE ESTIMATES FOR LEGISLATIVE CHANGES MADE IN OASI DURING CALENDAR YEAR 1981 (JANUARY 1982 ESTIMATES)

[In millions of dollars]

	Fiscal year—		
	1982	1983	1984
Elimination of minimum benefit for future beneficiaries	−81	−180	−210
Elimination of benefits for postsecondary students	−567	−1,580	−2,033
Restrictions on payment of lump-sum death benefits	−200	−210	−215
Modification of month of initial entitlement for certain workers and their dependents	−190	−220	−240
Temporary extension of earnings limitation to include all persons aged less than 72	−380	−120	0
Termination of mother's and father's benefits when youngest child attains age 16	−30	−88	−496
Modification of rounding rules	−79	−272	−314
Cost reimbursement for provision of earnings information	−1	−2	−5
Revision of reimbursements for vocational rehabilitation services	−87	−86	−73

TABLE 8.—CONGRESSIONAL BUDGET OFFICE ESTIMATES FOR LEGISLATIVE CHANGES MADE IN OASI DURING CALENDAR YEAR 1981 (JANUARY 1982 ESTIMATES)—Continued

[In millions of dollars]

	Fiscal year—		
	1982	1983	1984
Modify workmen's compensation offset to: (1) Apply offset to certain other public disability benefits-megacap; (2) apply offset to benefits of workers aged 62 to 64; and (3) begin offset in first month of dual benefit payment	−87	−122	−156
Extension of coverage to first 6 months of sick pay (revenue increase)	−534	−762	−828
Total OASI	−2,236	−3,642	−4,570

Legislative Changes Made in the 98th Congress

The 98th Congress made extensive changes in the old-age and survivors insurance program in the Social Security Amendments of 1983 (Public Law 98–21), enacted to restore the financial status of the Social Security trust funds. Table 9 outlines the estimated outlay and revenues effects of the 1983 amendments under alternative II-B assumptions. At the time, it was estimated that in the period 1983 through 1989 the OASDI and HI trust funds would receive $166.2 billion and $33.6 billion in additional financing, respectively.

TABLE 9.—ESTIMATED AMOUNTS OF CHANGES IN OASDI TAX INCOME, GENERAL FUND TRANSFERS, AND BENEFIT PAYMENTS THAT WILL RESULT FROM THE PROVISIONS IN PUBLIC LAW 98–21, BASED ON 1983 ALTERNATIVE II–B ASSUMPTIONS, CALENDAR YEARS 1983–89

[In billions of dollars]

Provision	Calendar year—							Total, 1983–89
	1983	1984	1985	1986	1987	1988	1989	
Increase tax rate on covered wages and salaries		8.6	0.3			14.5	16.0	39.4
Increase tax rate on covered self-employment earnings		1.1	3.1	3.0	3.2	3.7	4.4	18.5
Cover all Federal elected officials and political appointees		(1)	(1)	(1)	(1)	(1)	(1)	(.1)
Cover new Federal employees		.2	.7	1.2	1.8	2.4	3.1	9.3
Cover all nonprofit employees		1.3	1.5	1.8	2.1	2.6	3.0	12.4
Total for new coverage		1.5	2.2	3.0	3.9	5.0	6.1	21.8
Prohibit State and local government terminations		.1	2.	.4	6.	8.	1.1	3.2
Accelerate collection of State and local taxes		.6	(1)	(1)	.1	.1	.1	1.0

TABLE 9.—ESTIMATED AMOUNTS OF CHANGES IN OASDI TAX INCOME, GENERAL FUND TRANSFERS, AND BENEFIT PAYMENTS THAT WILL RESULT FROM THE PROVISIONS IN PUBLIC LAW 98–21, BASED ON 1983 ALTERNATIVE II–B ASSUMPTIONS, CALENDAR YEARS 1983–89—Continued

[In billions of dollars]

Provision	Calendar year—							Total, 1983–89
	1983	1984	1985	1986	1987	1988	1989	
Modify general fund financing basis for non-contributory military service credits	18.4	−.4	−.4	−.3	−.4	−.4	−.4	16.1
Provide reimbursements from general fund for unnegotiated checks	1.3	.1	.1	.1	.1	.1	.1	1.6
Delay benefit increases 6 months	3.2	5.2	5.4	5.5	6.2	6.7	7.3	39.4
Continue benefits on remarriage		(2)	(2)	(2)	(2)	(2)	(2)	−.1
Modify indexing of deferred survivors' benefits			(2)	(2)	(2)	(2)	(2)	(2)
Raised disabled widow(er)'s benefits to 71.5 percent of PIA		−.2	−.2	−.2	−.2	−.3	−.3	−1.4
Pay divorced spouses whether or not worker has retired			(2)	(2)	(2)	(2)	(2)	−.1
Replace 90-percent factor in benefit formula with variable percentage, for individuals receiving pensions from noncovered employment				(3)	(3)	(3)	.1	.1
Offset spouses benefits by up to two-thirds of noncovered Government pension	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Expand use of death certificates to stop benefits	(3)	(3)	(3)	(3)	(3)	(3)	(3)	.1
Impose 5-year residency requirement for certain aliens			(3)	(3)	(3)	(3)	(3)	.1
Tax one-half of benefits for high income beneficiaries		2.6	3.2	3.9	4.7	5.6	6.7	26.6
All other miscellaneous and technical changes	(2)	(2)	(2)	(2)	(2)	(2)	(2)	−.1
Total for all changes	22.8	19.2	13.9	15.3	18.0	35.8	41.2	166.2

[1] New additional taxes of less than $50 million.
[2] Additional benefits of less than $50 million.
[3] Reduction in benefits of less than $50 million.

Note. Estimates shown for each provision include the effects of interaction with all preceding provisions. Totals do not always equal the sum of components due to rounding. Positive figures represent additional income or reduction in benefits. Negative figures reductions in income or increases in benefits.

Source: Office of the Actuary, Social Security Administration.

Legislative Changes in the 99th Congress

Several legislative changes were made in the social security program in the 99th Congress. The Consolidated Omnibus Reconciliation Act of 1985 (Public Law 99–272) included a variety of minor and technical legislative changes in social security. Additionally, Public Law 99–272 contained provisions to: a) exempt wages paid retired Federal judges performing active duty for the purposes of the FICA taxation and the social security earnings limitation; and

b) to protect certain social security beneficiaries who receive overpayments through the electronic direct deposit system.

The Omnibus Reconcilation Act of 1986 (Public Law 99–509) included two significant social security provisions. The first eliminated the requirement that the annual rise in the Consumer Price Index must exceed 3 percent in order for a cost-of-living adjustment to be paid to social security beneficiaries. Under the new law, a cost-of-living adjustment will be paid in any year in which there is a measurable increase in consumer inflation. Secondly, Public Law 99–509 removes from the States the responsibility for collecting and depositing with the Federal Government social security contributions on behalf of their political subdivisions. All State and local entities will now deposit their social security contributions directly to the Federal Government on a time schedule that parallels the treatment of private employers.

The Emergency Deficit Reduction and Balanced Budget Act of 1985 (Public Law 99–177) contained a provision to remove the receipts and disbursements of the social security trust funds from the unified budget, and to prohibit consideration of legislative changes in social security as part of the Congressional budget process. Under the new law, the revenues and expenditures of the OASDI trust funds are not part of the unified budget, but are included in the calculation of the maximum deficit amount under the terms of the Balanced Budget Act.

Characteristics of Beneficiary Population

Tables 10 through 11 provide detailed information on the numbers of various OASI beneficiaries, the average amount of monthly benefits by type of beneficiary for new awards and for all beneficiaries currently receiving payments. More detailed information is shown in table 11 for December 1985.

TABLE 10.—OASI CASH BENEFITS: AVERAGE AMOUNT OF MONTHLY BENEFITS BY TYPE AND NUMBER OF BENEFICIARIES, CURRENT PAYMENT STATUS, DECEMBER 1986, AND NEW AWARDS, 1986

	Current payment		New awards	
	Number (in thousands)	Average payment	Number (in thousands)	Average payment
Retired workers	22,987	$488	1,734	$459
Wives and husbands of retired workers	3,088	252	358	226
Children of retired workers	450	204	123	206
Surviving children	1,875	337	320	330
Widowed mothers and fathers	350	338	69	324
Widows and widowers	4,825	444	491	445
Parents	9	387	0.3	388

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

TABLE 11.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1985

Benefits by age, sex, and average monthly benefit amount	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percent of total benefits
Retired workers:				
Men:				
62 to 64	1,287	3.5	$469	3.8
65 to 69	3,572	9.6	549	12.3
70 to 79	5,101	13.8	565	18.1
80 to 89	1,644	4.4	499	5.2
90 and over	214	.6	450	.6
Total, retired men	11,817	31.9	538	40.0
Women:				
62 to 64	1,168	3.2	304	2.2
65 to 69	2,856	7.7	396	7.1
70 to 79	4,439	12.0	447	12.5
80 to 89	1,842	5.0	430	5.0
90 and over	310	.8	367	.7
Total, retired women	10,615	28.6	412	27.5
Total, retired workers	22,432	60.5	479	67.6
Disabled workers:				
Men:				
Under 50	585	1.6	506	1.9
50 to 59	612	1.7	538	2.1
60 to 61	217	.6	552	.8
62 to 64	371	1.0	560	1.3
Total, disabled men	1,785	4.8	534	6.0
Women:				
Under 50	263	.7	407	.7
50 to 59	307	.8	364	.7
60 to 61	112	.3	371	.3
62 to 64	190	.5	379	.5
Total, disabled women	872	2.4	381	2.1
Total, disabled workers	2,657	7.2	484	8.1
Wives of retired workers:				
With entitled children:				
Under 35	5	(1)	128	(1)
35 to 44	22	.1	137	(1)
45 to 54	38	.1	153	(1)
55 to 64	42	.1	187	.1
Total, with entitled children	107	.3	162	.1
Without entitled children: 62 and over	2,926	7.9	250	4.6
Total, wives of retired workers	3,033	8.2	247	4.7

TABLE 11.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1985—Continued

Benefits by age, sex, and average monthly benefit amount	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percent of total benefits
Husbands of retired workers:				
62 to 74	17	(1)	160	(1)
75 and over	18	(1)	179	(1)
Total, husbands	36	.1	170	(1)
Total spouses of retired workers	3,069	8.3	246	4.7
Wives of disabled workers:				
With entitled children:				
Under 35	58	.2	101	(1)
35 to 44	95	.3	122	.1
45 to 54	58	.2	139	.1
55 to 64	14	(1)	157	(1)
Total, with entitled children	225	.6	123	.2
Without entitled children: 62 and over	79	.2	160	.1
Total, wives of disabled workers	304	.8	133	.3
Husbands of disabled workers	2	(1)	103	(1)
Total spouses of disabled workers	306	.8	133	.3
Children:				
Children of retired workers:				
0 to 6	20	.1	139	(1)
7 to 10	36	.1	142	(1)
11 to 17	228	.6	187	.3
18 to 19 (students)	15	(1)	232	(1)
Disabled children 18 and over	157	.4	231	.2
Total, children of retired workers	456	1.2	198	.6
Children of deceased workers:				
0 to 6	154	.4	287	.3
7 to 10	264	.7	316	.5
11 to 17	1,107	3.0	343	2.4
18 to 19 (students)	57	.2	361	.1
Disabled children 18 and over	336	.9	316	.7
Total, children of deceased workers	1,918	5.2	331	4.0
Children of disabled workers:				
0 to 6	138	.4	110	.1
7 to 10	172	.5	121	.1
11 to 17	579	1.6	151	.5
18 to 19 (student)	22	.1	197	(1)
Disabled children 18 and over	33	.1	184	(1)

TABLE 11.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1985—Continued

Benefits by age, sex, and average monthly benefit amount	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percent of total benefits
Total, children of disabled workers..	945	2.5	142	.8
Total, children	3,319	9.0	259	5.4
Widowed mothers and fathers:				
Under 30	40	.1	314	.1
30 to 39	136	.4	325	.3
40 to 49	119	.3	339	.3
50 to 59	61	.2	345	.1
60 to 61	66	.2	354	.1
62 and over	9	(1)	355	(1)
Total, widowed mothers and fathers....	372	1.0	332	.8
Widows (nondisabled):				
60, 61	190	.5	404	.5
62 to 64	458	1.2	417	1.2
65 to 69	841	2.3	442	2.3
70 to 79	1,732	4.7	443	4.8
80 to 89	1,219	3.3	434	3.3
90 and over	286	.8	398	.7
Total, widows	4,726	12.8	434	12.9
Widowers (nondisabled):				
62 to 64	13	(1)	316	(1)
65 to 69	5	(1)	339	(1)
70 to 74	4	(1)	325	(1)
75 to 79	4	(1)	312	(1)
80 to 84	3	(1)	311	(1)
85 and over	3	(1)	299	(1)
Total, widowers	30	.1	318	.1
Disabled widows and widowers:				
50 to 54	11	(1)	313	(1)
55 to 59	36	.1	315	.1
60	12	(1)	317	(1)
61	12	(1)	315	(1)
62 and over	36	.1	316	.1
Total, disabled widows and widowers..	107	.3	315	.2
Disabled widows	106	.3	317	.2
Disabled widowers	1	(1)	192	(1)
Parents: Total	10	(1)	378	(1)
Special age 72 beneficiaries (primary):				
Men	3	(1)	139	(1)
Women	39	.1	138	(1)

TABLE 11.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1985—Continued

Benefits by age, sex, and average monthly benefit amount	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percent of total benefits
Total, age 72 beneficiaries	32	.1	138	(1)
Wives of special age 72 beneficiaries	(2)	(1)	137	(1)
Total	37,058	100.0	429	100.0

[1] Less than 0.1 percent.
[2] Less than 500 beneficiaries.

Note.—Columns may not add due to rounding.

Source: Office of Research, Statistics, and International Policy; Social Security Administration.

The previous three tables have shown the number and average benefit classified by type of beneficiary. Many individuals receive benefits on their own record plus other benefits based upon earnings of their spouse or former spouse. Table 12 separates, by type of female beneficiary, the amount of benefits received on her own earnings record versus someone else's. For example, 9.7 million female beneficiaries over age 65 are insured and receive an average benefit of $434 or total benefits of $4,214 million. Some 6.7 million female beneficiaries over age 65 who are not insured receive an average benefit of $376. These benefits were all earned by a spouse or former spouse. Most of these benefits represent a survivor benefit. Table 13 presents similar information for male beneficiaries.

TABLE 12.—OASDI MONTHLY BENEFITS RECEIVED BY FEMALES IN DECEMBER 1986 [1]

[Numbers in thousands; amounts in millions except averages]

	Total OASDI benefit	Old-age benefit based on own earnings record	Disability benefit based on own earnings record	Retirement benefit received as spouse	Survivor benefit received as spouse	Disability benefit received as spouse	Benefit received as another parent, or special primary	Percent of total female benefits
Age 65 and over (insured):								
Number	9,720	9,720	.....	[2] 1,308	[2] 2,221	.....	[2] 2	.....
Total benefits	$4,214	$3,579	.....	$134	$500	.....	.....	52.5
Average [5]	$434	$368	.....	$102	$225	.....	$209	.....
Age 65 and over (not insured):								
Number	6,698	.....	.....	2,481	4,154	32	31	.....
Total benefits	$2,519	.....	.....	$644	$1,863	$5	$6	31.4
Average [5]	$376	.....	.....	$260	$448	$164	$207	.....
Age 62–64 (insured):								
Number	1,370	1,182	188	[2] 348	[2] 34	.....	([4])	.....
Total benefits	$441	$324	$72	$36	$10	.....	([3])	5.5
Average [5]	$322	$274	$381	$103	$301	.....	$342	.....
Age 62–64 (not insured):								
Number	1,020	.....	.....	481	487	44	8	.....
Total benefits	$327	.....	.....	$113	$204	$7	$3	4.1
Average [5]	$320	.....	.....	$234	$418	$169	$366	.....
Age less than 62:								
Number	1,606	.....	713	91	257	219	326	.....
Total benefits	$527	.....	$274	$15	$100	$26	$112	6.6
Average [5]	$328	.....	$385	$160	$388	$120	$344	.....
Total number	20,414	10,901	901	3,053	4,898	295	365	.....
Total benefits	$8,028	$3,903	$346	$941	$2,676	$39	$122	100.0
Average	$393	$358	$384	$308	$546	$132	$334	.....
Percent of total female benefits	100.0	48.6	4.3	11.7	33.3	0.5	1.5	.....

[1] Table does not include female child beneficiaries. [2] Dually entitled. [3] Less than 500. [4] Less than $500,000. [5] Rounded to the nearest dollar.

TABLE 13.—OASDI MONTHLY BENEFITS RECEIVED BY MALES IN DECEMBER 1986 [1]

[Numbers in thousands; amounts in millions except averages]

	Total OASDI benefit	Old-age benefit based on own earnings record	Disability benefit based on own earnings record	Retirement benefit received as spouse	Survivor benefit received as spouse	Disability benefit received as spouse	Benefit received as father, parent, or special primary	Percentage of total male benefit
Age 65 and over (insured):								
Number	10,772	10,772	.....	[2]	[2]	.....	[2]	.....
Total benefits	$6,006	$6,006	.....	[2]	[2]	.....	[2]	78.5
Average [6]	$558	$558	.....	.....	.....	.....	.....	.....
Age 65 and over (not insured):								
Number	56	.....	.....	34	18	1	3	.....
Total benefits	$12	.....	.....	$6	$6	[3]	[3]	0.2
Average [6]	$222	.....	.....	$172	$329	$106	$179	.....
Age 62–64 (insured):								
Number	1,679	1,313	366	[2]	[2]	.....	[2]	.....
Total benefits	$847	$639	$208	[2]	[2]	.....	[2]	11.1
Average [6]	$504	$486	$569	.....	.....	.....	.....	.....
Age 62–64 (not insured):								
Number	11	.....	.....	1	9	[4]	[4]	.....
Total benefits	$3	.....	.....	[3]	$3	[3]	[3]	[5]
Average [6]	$315	.....	.....	$126	$347	$87	$279	.....
Age less than 62:								
Number	1,487	.....	1,461	[4]	6	4	15	.....
Total benefits	$782	.....	$776	[3]	$2	[3]	$3	10.2
Average [6]	$526	.....	$532	$85	$257	$76	$204	.....
Total number	14,004	12,085	1,826	35	33	6	18	.....
Total benefits	$7,650	$6,644	$985	$6	$11	[4]	$4	100.0
Average [6]	$546	$550	$539	$170	$320	$82	$201	.....
Percent of total male benefits	100.0	86.9	12.9	0.1	0.1	[5]	[5]	.....

[1] Table does not include male child beneficiaries. [2] Assumes all dually entitled beneficiaries are female. [3] Less than $500,000. [4] Less than 500. [5] Less than 0.05 percent. [6] Rounded to nearest dollar.

TABLE 14.—1987 SUMMARY SOCIAL SECURITY INFORMATION

Tax rate:	
Employee and employer each	7.15 percent (5.70 percent—OASDI, 1.45 percent—HI).
Self-employed	14.30 percent (11.40 percent—OASDI, 2.90 percent—HI).
Wage Base	$43,800.
Quarter of Coverage	$460 equals 1 QC (minimum of $400 net earnings from self-employment needed to earn QC's based on self-employment income).
Retirement Test Exempt Earnings Limits:	
Age 65 and over	$8,160 annual, $680.00 monthly.
Under age 65	$6,000 annual, $500.00 monthly.

Bend Points:

PIA	Maximum Family Benefit
90 percent of first $310 of AIME, plus 32 percent of AIME over $310 thru $1,866, plus 15 percent of AIME over $1,866.	150 percent of first $396 of PIA, plus 272 percent of PIA over $396 thru $571, plus 134 percent of PIA over $571 thru $745, plus 175 percent of PIA over $745.

Benefit Examples:

Retired Worker Age 65 in 1987—January 1987 PIA	Long-Range Constant Replacement Rate Under Decoupled System
Fed. minimum wage earner, $391.10	Fed. minimum wage earner, 56 percent.
Average earner, $593.80	Average earner, 41 percent.
Maximum earner, $789.20	Maximum earner, 27 percent.

Average Earnings Level: 1985—$16,823; 1986 est.—$17,493.[1]
Federal Minimum Wage Level: [2] 1985—$6,968; 1986—$6,968.

Poverty level	1983 (actual)	1984 (actual)	1985 (actual)	1986 (est.)
Aged individual	$4,775	$4,979	$5,156	$5,255
Couple, aged head	6,023	6,282	6,503	6,628
Family of four	10,178	10,609	10,989	11,200

[1] 1985 Trustees' Report—alternative II–B assumptions.
[2] 2,080 hours times the hourly Federal minimum wage.

Source: Office of Legislative and Regulatory Policy, Social Security Administration.

TABLE 15.—MONTHLY BENEFIT AMOUNTS FOR SELECTED BENEFICIARY FAMILIES WITH FIRST ELIGIBILITY IN 1985, BY AVERAGE INDEXED MONTHLY EARNINGS, EFFECTIVE DECEMBER 1986

Beneficiary family	Average indexed monthly earnings of insured worker										
	$100	$297	$600	$1,000	$1,400	$1,790	$1,900	[1] $2,200	[1] $2,500	[1] $3,225	[1] $3,400
Primary insurance amount	$91.10	$270.70	$368.90	$498.50	$628.20	$754.60	$771.30	$816.90	$862.50	$972.70	$999.30
Maximum family benefit	136.70	406.10	553.40	887.70	1,139.50	1,321.70	1,351.00	1,430.70	1,510.50	1,703.40	1,749.80
Disability maximum family benefit [2]	91.10	270.70	516.60	747.80	942.30	1,132.00	1,157.00	1,225.40	1,293.80	1,459.10	.....
Disabled worker:											
Worker alone	91.00	270.00	368.00	498.00	628.00	754.00	771.00	816.00	862.00	972.00	.....
Worker, spouse, and 1 child	91.00	270.00	514.00	746.00	942.00	1,130.00	1,155.00	1,224.00	1,292.00	1,458.00	.....
Retired worker claiming benefits at age 62:[3]											
Worker alone	72.00	216.00	295.00	398.00	502.00	603.00	617.00	.....	.....	.....	.....
Worker with spouse claiming benefits at:											
Age 65 or older	117.00	351.00	479.00	647.00	816.00	980.00	1,002.00	.....	.....	.....	.....
Age 62 [3]	106.00	317.00	433.00	584.00	737.00	885.00	906.00	.....	.....	.....	.....
Widow or widower claiming benefits at:											
Age 65 or older [4]	91.00	270.00	368.00	498.00	628.00	754.00	771.00	.....	.....	.....	.....
Age 60 (or age 50 if disabled)	65.00	193.00	263.00	356.00	449.00	539.00	551.00	.....	.....	.....	.....
1 surviving child	68.00	203.00	276.00	373.00	471.00	566.00	578.00	612.00	646.00	729.00	749.00
Widow or widower aged 65 or older and 1 child	136.00	406.00	553.00	871.00	1,099.00	1,320.00	1,349.00	1,428.00	1,508.00	1,701.00	1,748.00
Widowed mother or father and 1 child	136.00	406.00	552.00	746.00	942.00	1,132.00	1,156.00	1,224.00	1,292.00	1,458.00	1,498.00

[1] Average indexed monthly earnings at these levels would only be possible for workers with high earnings who died or became disabled at relatively young ages.

[2] The 1980 Amendments to the Social Security Act provide for different family maximum amounts for disability cases. For disabled workers entitled after June 1980, the maximum is the smaller of (1) 85 percent of the worker's AIME (or 100 percent of the PIA, if larger), or (2) 150 percent of the PIA.

[3] Assumes maximum reduction.

[4] A widow(er)'s benefit amount is limited to the amount the spouse would have been receiving if still living but not less than 82½ percent of the PIA.

Section 2. Disability Insurance Program

The disability insurance (DI) program provides monthly cash benefits for workers under age 65 and their dependents. Benefits for the disabled were provided to disabled workers age 50 or older by the 1956 Social Security Amendments; benefits for the dependents of disabled workers were provided by the 1958 Social Security Amendments. Benefits to disabled workers under age 50 were provided by the 1960 amendments.

General

Many provisions of the disability insurance (DI) program are identical to those of the old age and survivors insurance (OASI) program. For example, all workers who are covered by OASI are also covered by DI. Contributions are made under the same provision of the Internal Revenue Code and are made on the same wage base.

The DI portion of the OASDI tax is allocated to the Disability Insurance Trust Fund which is the source of payment for monthly benefits to disabled workers and their dependents and for administrative expenses of the program. In addition, the revenue derived from the taxation of disability benefits is also deposited in the trust fund.

The purpose of both OASI and DI benefits is to replace income lost when the wage-earner is no longer able to work. However, significant differences exist between the two programs, primarily because of the different nature of the event insured. The OASI program insures a worker, his dependents and survivors against loss of income due to the worker's retirement or death. The DI program insures against the loss of income due to the worker's physical or mental disability. In addition, the OASI program is administered solely by Federal employees in Federal installations, whereas the DI program is administered both through Federal social security offices and State disability determination services staffed by State employees.

Benefits

Summary

Monthly cash benefits are paid and computed generally on the same basis as in the OASI program. Benefit amounts are related to the past earnings of the insured worker.

In December 1986 there were 4.0 million DI beneficiaries in current-payment status. The total monthly benefits paid out were $1.51 billion. Table 1 summarizes various types of beneficiaries of the DI program currently receiving benefits, and average benefit amounts and the number of new awards during 1986.

TABLE 1.—DISABILITY CASH BENEFITS: NUMBER IN CURRENT PAYMENT STATUS AND AVERAGE BENEFIT AMOUNT (DECEMBER 1986) AND NUMBER OF BENEFITS AWARDED DURING THE YEAR AND AVERAGE BENEFIT AMOUNT, 1986

	Current payment		New awards	
	Number (in thousands)	Average payment	Number (in thousands)	Average payment
Disabled workers	2,727	$488	417	$478
Wives and husbands of workers	301	131	82	127
Children of disabled workers	965	141	258	131

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

Description of major benefit types

Disabled-worker (disability insurance) benefit.—A monthly benefit payable to a disabled worker under age 65 insured for disability.

Spouses' benefit.—Monthly benefit payable to a spouse or divorced spouse of a disabled worker under one of the following conditions: (1) wife or husband is aged 62 or older or has 1 or more entitled children of the worker under age 16 in his or her care; or (2) divorced wife (husband) is aged 62 or older and her (his) marriage to worker has lasted 10 years (20 years for benefits paid or applications filed before January 1979) before divorce became final.

Child's benefit.—A monthly benefit payable to an unmarried child or eligible grandchild of a disabled worker.

Disabled child's benefit.—A monthly benefit payable to a disabled person aged 18 or over—a dependent son or daughter or eligible grandson or granddaughter of a retired, deceased, or disabled worker—whose disability began before age 22.

Definition of disability

Generally, disability is defined as an inability to engage in any substantial gainful activity by reason of a physical or mental impairment. The impairment must be medically determinable and expected to last for not less than 12 months or to result in death. A person (other than a disabled widow or widower) may be determined to be disabled only if due to this impairment he is unable to engage in any kind of substantial gainful work, considering his age, education, and work experience, which exists in the national economy even though such work does not exist in the immediate area in which he lives, or whether a specific job vacancy exists for him, or whether he would be hired if he applied for work.

There are special definition and eligibility requirements for persons who are blind.

A widow (or widower) can be determined to be disabled only if a physical or mental impairment exists of such a level of severity that makes it impossible to perform any gainful work (rather than substantial gainful work).

Waiting period

An initial 5-month waiting period is required before disability insurance benefits will be paid. Benefits are payable for the 6th month. However, benefits may be paid for the 1st full month of disability to a worker who becomes disabled within 60 months (for a disabled widow or widower the period is 84 months) after termination of disability insurance benefits after an earlier period of disability.

Insured status

Workers are *insured for disability* if they are fully insured and, except for persons who are blind or disabled before age 31, have a total of at least 20 quarters of coverage during the 40-quarter period ending with the quarter in which the worker became disabled. Workers who are disabled before age 31 must have total quarters of coverage equal to half the calendar quarters which have elapsed since the worker reached age 21, ending in the quarter in which the worker became disabled. However, a minimum of 6 quarters is required.

Benefit Computation

Disability benefits are computed in the same manner as old age and survivors benefits (the worker is presumed to be age 62 in the month he becomes disabled) except that the number of years of earnings which is excluded when determining the benefit amount is less than 5 for workers under age 47. The number of drop-out years allowed increases with the age of the insured worker at disablement. The amount of the monthly benefit is based on the insured worker's primary insurance amount (PIA). The presumption of age 62 does not result in an actuarial reduction.

The following table lists major disability benefits with the percentage of the insured worker's PIA.

TYPE OF MONTHLY BENEFIT

	Percent of PIA
Disabled worker (any age)	100
Dependents of disabled worker: [1] Wife or husband (age 62), mother, father, children and grandchildren	50
Survivors: [1] Disabled (age 50–59), widows or widowers	71.5

[1] Subject to maximum family benefit limitation.

Substantial gainful activity

The Secretary of HHS [1] has specific regulatory authority to prescribe the criteria for determining when earnings derived from employment demonstrate an individual's ability to engage in substantial gainful activity (SGA).

[1] Throughout the remainder of this section when Secretary is used, it is the Secretary of Health and Human Services.

The Secretary has published regulations specifying the monetary amounts which indicate substantial gainful activity. At the present time the SGA earnings level is $300 a month (net of impairment-related work expenses).

Trial work period

A 24-month "trial work period" is provided for disabled beneficiaries who attempt to work, during which their benefits will not be terminated because of work. During the second 12 months of this period, benefits are suspended for any month during which the individual is engaged in substantial gainful activity (SGA), but his entitlement to benefits is not terminated. Medicare benefits may be continued for 24 months after the expiration of the trial work period.

If an individual medically recovers to the extent that he no longer meets the definition of disability, benefits are terminated regardless of the "trial work" provision. Only one trial work period is permitted for each period of disability. Beneficiaries who qualified for benefits without a waiting period are not entitled to a trial work period. The Secretary of HHS has provided by regulation that earnings of $75 a month will constitute a month of "trial work."

Maximum family benefit

The maximum monthly amount of family benefits which is payable on a disabled worker's earnings record for workers who first become entitled after June 1980, is the smaller of 85 percent of the worker's average indexed monthly earnings or 150 percent of the worker's primary insurance amount. However, in no case can the benefit be reduced below 100 percent of the worker's primary insurance amount.

Offset for other public disability benefits

When a disabled worker under age 65 qualifies on the basis of total or partial disability (whether or not permanent) for benefits which are provided by Federal, State and local governments and worker's compensation, the social security benefits payable to him and his family are reduced by the amount, if any, that the total monthly benefits payable under the two or more programs exceed 80 percent of his average current earnings before he became disabled. Needs-tested benefits, Veterans' Administration disability benefits, and benefits based on public employment covered by social security are not subject to the provision. A worker's average current earnings for this purpose are the larger of (a) the average monthly earnings used for computing his social security benefits, or (b) his average monthly earnings in employment or self-employment covered by social security during the 5 consecutive years of highest covered earnings after 1950, or (c) the average monthly earnings during the calendar year of highest earnings during a period consisting of the year in which disability began and the preceding 5 years without regard to the limitations which specify a maximum amount of earnings creditable for social security benefits. The combined payments after the reduction are never less than the total amount of the DI benefits payable before the reduction. In addition, the social security benefit is increased by the full

amount of the cost-of-living increase as applied to the unreduced benefit. Every 3 years the original amount of benefits subject to reduction is redetermined to reflect changes in average wage levels. If increases in the average national wages would result in a higher benefit than that payable based on the original computation, the benefit is increased effective January of the redetermination year.

The offset begins in the month during which concurrent entitlement begins under a Federal or State law.

The offset of the social security disability benefit will not be made if the State worker's compensation law provides for an offset against social security disability benefits. However, this waiver of the offset would only apply where the State program began offsetting on or before February 18, 1981.

Determination of Disability

State agency determinations of disability

Disability determinations are made by State agencies who agree to make such determinations and substantially comply with the regulations of the Secretary. The Secretary is required to issue regulations specifying, in such detail as he deems appropriate, performance standards and administrative requirements and procedures to be followed in performing the disability determination function "in order to assure effective and uniform administration of the disability insurance program through the United States." Certain operational areas are cited as "examples" of what the regulations may specify. These include such items as the nature of the administrative structure, the physical location of and relationship among agency staff units, performance criteria and fiscal control procedures.

The law also provides that if the Secretary finds that a State agency is substantially failing to make disability determinations consistent with his regulations, the Secretary shall, not earlier than 180 days following his findings, terminate State administration and make the determinations himself. The law also allows for termination by the State. The State would be required to continue to make disability determinations for not less than 180 days after notifying the Secretary of its intent to terminate. Thereafter, the Secretary would be required to make the determinations.

Determining disability: Application of law and regulations

The adjudication of claims is accomplished on a sequential basis. Whether the individual is currently employed and the amount of earnings are the first factors considered. If the individual is earning the amount that determines ability to engage in "substantial gainful activity" (SGA, now $300 a month) he is determined not disabled. If he is making less than this amount or not working at all, the severity and duration of the impairment are explored. If the severity is determined to be "not severe" the individual is denied right at that point. It is important to note that the "severity" step has become very controversial in recent years, with several Federal circuit courts ruling that SSA's procedures violate the intent of the law that every claimant receive an individual determination based on medical and vocational factors. If the impair-

ment is "severe," a determination is made whether the impairment "meets" or "equals" the level of severity spelled out in the regulations[2] and whether it will last for 12 months. If it neither "meets" nor "equals" the specified standard (which will result in an allowance) but meets the 12-month duration rule, a determination is then made whether the claimant is able to carry out his former occupation. If he can he is denied benefits, but if he cannot, the nonmedical factors come into play.

At this stage, because of a judicial opinion and subsequent administrative and legislative ratification, the burden of proof switches to the Government to show that the individual can, considering his impairment, age, education, and work experience, engage in some other kind of substantial gainful activity which exists in a national economy. Such work, however, does not have to exist in the immediate area in which he lives and a specific job vacancy does not have to be available to him. Work in the national economy is defined in the law as work which exists in significant numbers either in the region where such individual lives or in several regions of the country.

In the face of a growing number of nonmedical allowances and a declining number of cases where the medical listings were met, the Social Security Administration in 1976 developed a vocational "grid" designed to reduce the subjectivity and lack of uniformity in applying the vocational factor. The grid regulations were designed to embody in a formula certain worker characteristics such as age, education, and past work experience, in relation to the individual's residual functional capacity (RFC) to perform work-related physical and mental activities. If the claimant has a particular level of residual work capability—characterized by the terms Sedentary, Light, Medium, Heavy and Very Heavy—an automatic finding of "disabled" or "not disabled" is required when applied to various combinations of age, education, and work experience.

The regulations were finally promulgated in February 1979 after some lengthy administrative hearings and consideration. During the period 1975–1983, there was a decline at the State agency level in the number of non-medical allowances and a dramatic increase in the percentage of allowed cases which "met" the medical listings. Those percentages are presented in table 2 and show this trend has slightly reversed itself in 1984 and 1985. Moreover, there was an equally dramatic increase during the period from 1975 through 1983 in the number of denials on the basis of "impairment not severe" which under the sequential method of determining disability would exclude the consideration of the nonmedical factors. This trend also seems to have slowed in 1984 and 1985. Table 3 gives a percentage distribution of the basis for denials at the initial

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[2] The Listing of Impairments contains over 100 examples of medical conditions that would ordinarily prevent an individual from engaging in any gainful activity. Each listing describes a degree of severity such that an individual who is not working and has such an impairment is considered unable to work by reason of the medical impairment. The listing describes specific medically acceptable clinical and laboratory findings and signs which establish the severity of the impairments. An impairment or combination of impairments is said to "equal the listings" if the medical findings for the impairment are at least equivalent in severity and duration to the listed findings of a listed impairment.

determination of disability at the State agency level for fiscal years 1975 to 1985.

TABLE 2.—BASIS FOR TITLE II ALLOWANCES—NATIONAL FIGURES: INITIAL WORKER DETERMINATION, FISCAL YEARS 1975–86

[In percent]

Fiscal year	Meets listing	Equals listing	Medical and vocational considerations
1975	29.4	43.9	26.7
1976	29.0	45.1	25.9
1977	34.2	41.9	23.9
1978	45.6	31.9	22.5
1979	55.1	22.7	22.1
1980	57.9	16.2	25.9
1981	63.9	12.3	23.8
1982	72.7	8.6	18.7
1983	74.0	8.3	17.7
1984	66.7	8.7	24.6
1985	62.7	9.2	28.1
1986 [1]	67.0	8.9	24.1

[1] Based on preliminary quarterly data.

Source: Office of Disability, Social Security Administration.

TABLE 3.—BASIS FOR TITLE II DISALLOWANCES AND DENIALS—NATIONAL FIGURES: INITIAL WORK DETERMINATION, FISCAL YEARS 1975–86

[In percent]

	Duration	Slight impairment	Able to perform usual work	Able to perform other work	Engaging in SGA	Failure to cooperate	Failure to appear	Other
1975	19.6	8.4	44.3	18.2	1.0	5.1	1.8	1.6
1976	19.9	10.8	41.9	20.1	.4	4.8	1.8	.3
1977	21.2	24.8	30.0	15.7	.5	4.9	1.8	1.1
1978	21.1	31.8	25.0	14.6	.5	4.1	1.9	1.0
1979	20.0	41.6	21.5	12.5	.4	.9	2.3	.8
1980	20.6	39.0	23.7	12.7	.....	1.9	1.3	.7
1981	17.5	43.2	18.7	11.3	2.0	.....	2.6	4.8
1982	16.4	38.9	22.6	14.1	1.1	.....	2.8	3.6
1983	16.9	39.4	22.0	14.3	1.0	.....	3.0	3.4
1984	14.8	34.3	23.8	16.7	1.0	2.0	2.3	5.1
1985	15.4	23.3	35.4	20.3	1.1	.....	2.2	2.3
1986 [1]	14.4	21.0	38.1	21.1	.6	.....	2.1	2.7

[1] Based on preliminary quarterly data.

Source: Office of Disability, Social Security Administration.

A widow or widower may qualify for benefits on the deceased spouse's work record at age 50 and over if he or she has "physical or mental impairments" at "a level of severity which under regulations prescribed by the Secretary is deemed to be sufficient to preclude an individual from engaging in any gainful activity." The regulations of the Secretary state that to qualify for disabled widows' benefits a person must have impairments which "meet the listings" or "are medically equivalent to those for any impairment shown there." Thus, vocational factors are not taken into account in determining the disability of a widow or widower.

Federal review of State determination

The Secretary may, on his own motion, review any determination by a State agency.

The law requires that the following minimum number of allowances (or continuances) of disability shall be reviewed by the Secretary:

	Percent [1]
Decisions made in fiscal year:	
1981	15
1982	35
1983 and thereafter	65

[1] Minimum percent reviewed.

Periodic review of individuals receiving disability benefits

The 1980 Disability Amendments required that the Social Security Administration reexamine every individual on the rolls who is determined to be nonpermanently disabled for benefit eligibility at least once every 3 years. Where there is a finding of permanency, the Secretary may reexamine at such times as is determined to be appropriate. These reviews are in addition to the administrative procedures existing prior to the 1980 amendments which determined continued eligibility for disability benefits. Legislation enacted in late 1982 provided authority for the Secretary to slow down the rate of continuing eligibility reviews mandated by the 1980 amendments.

Medical improvement standard

The 1984 Disability Benefits Reform Act amended the law to require that in continuing eligibility review cases, benefits may be terminated only if the Secretary finds that there has been medical improvement in the person's condition and that this improvement has enabled the person to engage in substantial gainful activity. There are several statutory exceptions to this standard, which is described in greater detail in the "Recent Legislation" section of this chapter.

Medical evidence

An individual is not considered under a disability unless he furnishes such medical and other evidence as the Secretary may require.

Under the law, the Secretary will generally reimburse physicians or hospitals for supplying medical evidence in support of claims for social security disability insurance benefits. The Secretary also pays for medical examinations if this is needed to adjudicate the claim.

Attorney's fees and representation

At the administrative level the Secretary of HHS is authorized to fix a reasonable fee for the services provided before the Social Security Administration for a Social Security applicant by an attorney and to pay such attorney's fee out of the applicant's past-due benefits. The amount that can be paid out of past-due benefits is limited to the smaller of (a) 25 percent of the past-due benefits; (b) the fee fixed by the Secretary; or (c) an amount agreed to by the applicant and the attorney. The Secretary certifies for payment to the attorney the fee so fixed.

A court which renders a decision favorable to a claimant for social security benefits is permitted to set a reasonable fee for the attorney who represented the claimant before the court. The fee cannot exceed 25 percent of the past-due benefits which result from the court's decision. The Secretary may certify for payments to the attorney, out of the total of the past-due benefits, the amount of the fee set by the court.

Vocational Rehabilitation

The Social Security Act requires that disabled persons applying for a determination of disability be promptly referred to State vocational rehabilitation agencies for necessary rehabilitation services. The act provides for withholding of benefits for refusal, without good cause, to accept rehabilitation services available under a State plan approved under the Vocational Rehabilitation Act in such amounts as the Secretary shall determine.

Public Law 97-35 eliminated reimbursement from the trust funds to the State vocational rehabilitation agencies for rehabilitation services except in cases where the services have resulted in the beneficiary's performance of substantial gainful activity (SGA) for a continuous period of at least 9 months. Such a 9-month period could begin while the individual is under a vocational rehabilitation program and may also coincide with the trial work period or the individual's waiting period for benefits. The services must be performed under a State plan for vocational rehabilitation services under title I of the Rehabilitation Act. In the case of any State which is unwilling to participate or which does not have a plan which meets the requirements of the Vocational Rehabilitation Act, the Commissioner of Social Security may provide such services by agreement or contract with other public or private agencies, organizations, institutions or individuals. The determination that the VR services contributed to the successful return of the individual to SGA and the determination of the amount of costs to be reim-

bursed shall be made by the Commissioner of Social Security in accordance with criteria formulated by him. Payments under this provision shall be made in advance or by way of reimbursement, with necessary adjustments for overpayments or underpayments.

Disability Claims and Appeals Structure

The social security appeals and case review process is a complex multi-layered structure which is inextricably linked with the disability determination process. Since about 97 percent of the hearing requests involve disability claims (both social security and SSI), the process described will be for that type of claim. The application for disability benefits is made at the Federal social security district office where the claimant is interviewed and the sources of medical evidence are recorded. After determining whether the applicant meets the insured status requirements, the case is then sent to the State agency which, operating as an agent of the Social Security Administration, makes the initial determination of disability. If a claimant or terminated beneficiary is dissatisfied with an initial denial or termination of disability benefits by the State agency, he can request a reconsideration within 60 days of notice of denial. The reconsideration is also carried out by the State agency but by personnel other than those who made the initial determination. If upon reconsideration the claimant is again denied benefits he will be given a hearing before an administrative law judge (ALJ), providing he files a request within 60 days of notice of denial. If the claim is denied by the ALJ, the claimant has 60 days to request review by the Appeals Council. The Appeals Council may also, on its own motion, review a decision within 90 days of the ALJ's decision. The 1980 Disability Amendments required the Secretary to review a percentage of ALJ hearing decisions, and this review is being conducted by the Appeals Council.

The Appeals Council may review, affirm, modify or reverse the decision of the ALJ, or it may remand it to the ALJ for further development. The claimant is notified in writing of the final action of the Appeals Council, and is informed of his right to obtain further review by commencing a civil action within 60 days in a United States district court.

Under current law, as amended by the 1984 Disability Benefits Reform Act, benefits of terminated DI beneficiaries are continued through the appeals process. If the termination decision is upheld, the beneficiary must repay these benefits.

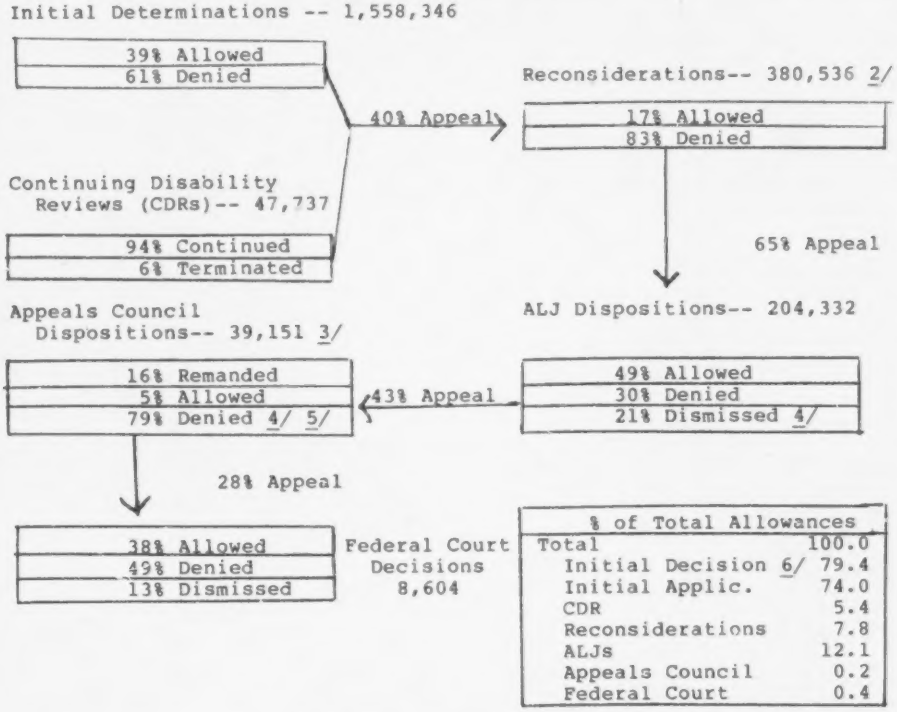
Table 4 shows the number of cases processed and allowed at various levels of appeal. Of the 1,558,346 initial disability determination decisions by State agencies in fiscal year 1986, some 39 percent were allowed.

Actually the process is more complex than an initial glance at table 4 would indicate. For example, in fiscal year 1982, 71,450 initial allowances were selected for a Federal preeffectuation review after which 6,502 cases were returned to the State agencies. Ultimately 4,155 of these initial decisions were reversed. Thus, the Federal review process examined approximately 30 percent of initial allowances. A similar process also takes place for the continuing disability allowances and the reconsiderations which result in an

allowance. Out of the total 1,567,247 initial and continuing disability determinations in 1984, 61 percent were initially denied. Fewer than half of these appealed their denials to the reconsideration level, although 96 percent of those denied at the reconsideration level appealed to the administrative law judge hearing level. As a result, after all levels of appeal had been exhausted, only about 28.3 percent of those denied initially (either on initial application or continuing eligibility review) had benefits granted to them through the appeals process.

TABLE 4.—DISABILITY DETERMINATIONS AND APPEALS, FISCAL YEAR 1986

Title II, Title XVI and Concurrent Title II and XVI Decisions
For Disability Claims by Workers, Widows, Widowers and
Disabled Adult Children 1/



	% of Total Allowances
Total	100.0
Initial Decision 6/	79.4
Initial Applic.	74.0
CDR	5.4
Reconsiderations	7.8
ALJs	12.1
Appeals Council	0.2
Federal Court	0.4

1/ The data relate to workloads processed at the various levels in FY 86, but include some cases where the initial level decision was made in a prior period. The data include determinations on initial applications as well as continuing disability reviews (both periodic reviews and medical diary cases).

2/ Title II only. Title XVI and concurrent Title II/XVI cessation cases go directly to an ALJ hearing.

3/ Includes ALJ decisions cases not appealed further by the claimant but reviewed by the Appeals Council on its "own-motion" authority.

4/ Includes periodic review cases in which benefits were reinstated under Secretary Heckler's suspension of the continuing disability review process in April 1984.

5/ Includes dismissals, denials of request for review, and affirmations of denial.

6/ Initial determinations plus CDRs.

Table 5 presents information for fiscal years 1979 through 1986 of the number of cases which are reviewed and reversed at the administrative law judge level. Approximately 51.9 percent of initial denials were reversed in 1986.

TABLE 5.—ADMINISTRATIVE LAW JUDGE REVERSAL RATES—DISABILITY INSURANCE [1] INITIAL DENIALS AND TERMINATIONS,[2] FISCAL YEARS 1979–86

	Dismissed	Affirmed	Reversed	Total	Percent reversed
Fiscal year 1979:					
Initial denials	6,332	31,485	48,934	86,751	56.4
Terminations	1,401	4,078	8,052	13,531	59.5
Fiscal year 1980:					
Initial denials	7,093	31,703	56,733	95,529	59.4
Terminations	1,431	4,197	9,909	15,537	63.8
Fiscal year 1981:					
Initial denials	15,141	59,930	98,129	173,200	56.7
Terminations	2,623	6,945	16,685	26,253	63.6
Fiscal year 1982:					
Initial denials	15,403	67,481	91,865	174,749	52.6
Terminations	4,670	17,502	37,306	59,478	62.7
Fiscal year 1983:					
Initial denials	14,334	65,626	79,427	159,387	49.8
Terminations	9,247	37,284	73,821	120,352	61.3
Fiscal year 1984:					
Initial denials	15,075	63,381	88,301	166,757	53.0
Terminations	25,681	22,590	56,327	104,598	53.9
Fiscal year 1985:					
Initial denials	14,806	61,161	92,118	168,085	54.8
Terminations	4,176	2,415	3,126	9,717	32.2
Fiscal year 1986:					
Initial denials	28,792	44,223	78,737	151,752	51.9
Terminations	1,095	2,129	2,014	5,238	38.4

[1] Includes title II and concurrent title II/title XVI disability cases and concurrent title II/title XVI aged cases.
[2] Includes all termination cases regardless of the basis for termination.

Source: Office of Hearings and Appeals, Social Security Administration.

Table 6 presents information on the number of continuing disability investigations which have taken place from fiscal year 1977 to 1986. From 1977 to 1981 the number of cases reviewed ranged between 2.4 percent to 5.0 percent of the total caseload. In fiscal year 1983, the percentage of cases reviewed climbed to 13.8 percent. The percent of cases which were terminated has held fairly constant at around 42 to 45 percent over this time period. This implies that the number of cases terminated has increased substantially. In fiscal year 1983, benefits were terminated for 182,074 disabled workers as compared with 80,956 2 years earlier. These beneficiaries have the ability to appeal and so these numbers should not be construed as the ultimate outcome of the continuing disability investigation process. As noted, the sharp decline in the number of

reviews in fiscal years 1984–86 reflects the Secretary's moratorium on reviews pending enactment of the legislation in 1984, and delays in implementing that legislation in 1985 and 1986. The very low percentage of cessations in that period possibly reflected uncertainty about the nature of the new standards to be provided in the legislation and regulations. The rise in continuations in 1986 in part reflects the implementation of 1984 amendments, which established the medical improvement standard and revised the guidelines for evaluating mental disorders.

TABLE 6.—CONTINUING DISABILITY INVESTIGATIONS (CDI) INITIAL DECISIONS: TITLE II DISABLED WORKERS, DISABLED WIDOWS AND WIDOWERS, AND DISABLED CHILDREN CESSATIONS AND CONTINUATIONS, FISCAL YEARS 1977–86

	Cessations		Continuations		Total cases		
	Number	Percent	Number	Percent	Cessations and continuations	Total disabled persons	Percent reviewed
1977	41,475	38.7	65,745	61.3	107,220	[1] 3,322,230	3.2
1978	38,847	46.4	44,804	53.6	83,651	3,447,767	2.4
1979	45,216	48.1	48,868	51.9	94,084	3,457,837	2.7
1980	44,273	46.8	50,227	53.2	94,550	3,454,010	2.7
1981	80,956	47.9	87,966	52.1	168,922	3,413,602	4.9
1982	179,857	44.8	221,325	55.2	401,182	3,263,354	12.3
1983	182,074	41.7	254,424	58.3	436,498	3,226,888	13.5
1984 [2]	31,927	24.6	97,752	75.4	129,679	3,249,367	4.0
1985 [2]	2,785	85.4	475	14.6	3,260	3,332,870	.1
1986	2,554	5.6	42,805	94.4	45,359	3,261,768	1.4

[1] In current pay at end of fiscal year.

[2] The decline in the number of reviews in 1984 and 1985 was due to the national moratorium on reviews pending enactment and implementation of the new legislation with revised criteria for CDI's (enacted in 1984, regulations promulgated late 1985).

Source: Office of Disability Programs, Social Security Administration.

Recent Experience in the Disability Program

In the past several years, there has been a significant decline in the number of beneficiaries (from 4.868 million in 1978 to 3.813 million in December 1983). This is a decline of 21.7 percent. The number of awards has declined from 592,049 in 1975 to approximately 298,531 in 1982. Awards have been increasing in recent years, with 377,371 in 1985 and 416,865 in 1986. The incidence of disability (number of awards per 1,000 insured workers) fell from an all-time high of 7.1 in 1975 to 2.9 in 1982, the lowest incidence rate in the history of the program, and now stands at 3.7 for 1986. (See table 7.)

Table 8 shows the number of disability insurance beneficiaries for selected years.

TABLE 7.—DISABLED WORKERS' APPLICATIONS, AWARDS AND RATIO OF AWARDS TO APPLICATIONS AND AWARDS PER 1,000 INSURED WORKERS FOR 1960, 1965, 1970 TO 1986

	Number of applications (in thousands)	Total awards	Total awards divided by total applications (percent)	Awards per 1,000 insured workers
1960	418.6	207,805	50	4.5
1965	532.9	253,499	48	4.7
1970	868.2	350,384	40	4.8
1971	924.4	415,897	45	5.6
1972	947.8	455,438	48	6.0
1973	1,066.9	491,616	46	6.3
1974	1,330.2	535,977	40	6.7
1975	1,285.3	592,049	46	7.1
1976	1,232.2	551,460	45	6.5
1977	1,235.2	568,874	46	6.5
1978	1,184.7	464,415	39	5.2
1979	1,187.8	416,713	35	4.4
1980	1,262.3	396,559	31	4.0
1981	1,161.3	345,254	30	3.4
1982	1,020.0	298,531	29	2.9
1983	1,017.7	311,491	31	3.0
1984	1,035.7	357,141	34	3.4
1985	1,066.2	377,371	35	3.5
1986	1,126.9	416,865	37	3.8

[1] Preliminary, as of December 1986.

Source: Office of the Actuary, Social Security Administration.

TABLE 8.—NUMBER OF DISABILITY INSURANCE BENEFICIARIES FOR SELECTED YEARS: 1960–86

[Current payment status, December]

	Disabled workers	Spouse	Child	Total
Year:				
1960	455,371	76,599	155,481	687,451
1965	988,074	193,362	557,615	1,739,051
1970	1,492,948	283,447	888,600	2,664,995
1975	2,488,774	452,922	1,410,504	4,352,200
1980	2,861,253	462,204	1,358,715	4,682,172
1981	2,776,519	428,212	1,251,543	4,456,274
1982	2,603,713	365,883	1,003,869	3,973,465
1983	2,568,966	308,060	935,904	3,812,930
1984	2,596,535	303,984	921,285	3,821,804
1985	2,656,500	305,528	945,141	3,907,169
1986	2,727,386	300,592	965,301	3,993,279

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

Tables 9 through 12 present data on the demographic, social, and medical characteristics of the disabled population over time. For instance, Table 9 shows the increase in the receipt of benefits by women which reflects larger societal trends in female workforce participation. Table 10 indicates the higher levels of educational attainment that characterize the present disabled population in comparison to that of 1970. Table 12 presents information on the incidence of working age persons reporting being unable to work full-time throughout a full year because of a limiting condition.

Characteristics of DI Beneficiaries

TABLE 9.—PERCENT DISTRIBUTION BY AGE AND SEX OF DISABLED WORKER BENEFICIARIES ALLOWED IN SELECTED YEARS 1970–85, COMPARED WITH ADULT U.S. POPULATION

Characteristics	Year allowed benefits							Adult U.S. population [1]
	1970	1973	1975	1979	1982	1983	1985	
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Age:								
Under 35	9.0	8.0	11.0	13.6	14.4	16.6	16.8	49.0
35 to 44	11.0	9.0	10.0	11.5	12.3	12.8	15.0	19.0
45 to 54	26.0	26.0	26.0	27.2	26.5	24.2	25.7	16.0
55 to 59	24.0	26.0	23.0	27.0	27.2	22.7	23.9	8.0
60 and over	30.0	31.0	30.0	20.6	19.6	23.7	18.7	8.0
Median age (years)	56.0	56.3	55.6	53.4	53.1	52.9	51.7	35.4
Sex:								
Male	74	71	68	69	70	69	67	49
Female	26	29	32	31	30	31	33	51

[1] Derived from 1980 Census; based on population aged 18–64.

Source: Office of Disability, Social Security Administration.

TABLE 10.—PERCENT DISTRIBUTION BY EDUCATION AND OCCUPATION OF DISABLED WORKER BENEFICIARIES ALLOWED IN SELECTED YEARS 1970–85, COMPARED WITH ADULT U.S. POPULATION

Education and occupation	Year allowed benefits							Adult U.S. population [1]
	1970	1973	1975	1979	1982	1983	1985	
Total percent	100	100	100	100	100	100	100	100
Education (years of school completed):								
No schooling	2	1	1	1	1	[2] 1	[3] 2	2
Elementary school (1 to 8)	44	40	37	29	26	23	23	17
High school	46	50	52	55	56	55	59	51
9 to 11	23	23	24	23	22	21	22	14
12	23	26	28	32	34	34	37	37
Some college	9	10	10	12	14	14	14	32
Unknown	0	0	0	3	3	7	2	2
Occupation:								
Professional, technical and managerial	12	13	18	14	14	14	NA	24
Clerical and sales	15	15	14	15	15	14	NA	25
Service	18	17	17	15	14	15	NA	12
Farming	6	5	4	4	3	3	NA	3
Transportation, packaging and handling, mineral extraction	14	13	12	12	12	11	NA	18
Machine trades	11	11	10	10	10	8	NA	18
Bench work	6	7	7	6	5	5		
Processing	3	4	3	3	4	3		
Structural work	15	15	15	14	15	13		
Unknown	0	0	0	7	8	14		

[1] Derived from 1980 Census. Figures for education based on persons aged 25 and over. Figures for occupation based on employed population aged 18–64.

[2] Special schools for handicapped (0.6 percent) and no schooling (0.5 percent).

[3] Special schools for handicapped (1.2 percent) and no schooling (0.7 percent).

Source: Office of Disability, Social Security Administration.

NA—Not available.

TABLE 11.—PERCENT DISTRIBUTION BY DISABLING CONDITION AND MOBILITY OF DISABLED WORKER BENEFICIARIES ALLOWED IN SELECTED YEARS 1970–85

Disabling condition and mobility	Year allowed benefits						
	1970	1973	1975	1979	1982	1983	1985
Total percent	100	100	100	100	100	100	100
Disabling condition:							
Infective and parasitic diseases	3	2	1	1	1	2	1
Neoplasms	10	10	10	14	17	17	15
Allergic, endocrine system, metabolic and nutritional diseases	4	4	3	3	4	5	5
Mental, psychoneurotic and personality disorders	11	10	11	11	11	16	18
Diseases of the nervous system and sense organs	6	6	7	8	9	8	8
Circulatory system	31	32	32	28	25	22	19
Respiratory system	7	7	7	6	7	6	5
Digestive system	3	3	3	2	2	2	2
Skeletal musculo	15	17	17	17	16	13	13
Accidents, poisonings and violence	8	6	6	6	6	5	4
Other/unknowns	2	3	3	3	2	4	11
Mobility:							
Institutionalized	6	3	2	2	1	2	2
Hospitalized	6	4	3	2	3	3	2
Housebound	6	3	2	2	2	2	2
Ambulatory outside house:							
With help	16	16	13	10	10	10	10
By self	66	73	77	82	81	76	83
Other/unknown	0	0	0	2	3	7	2

Source: Office of Disability, Social Security Administration.

TABLE 12.—PERCENT OF WORKING AGE POPULATION SELF-REPORTING INABILITY TO WORK, 1962 TO 1984

	1962	1968	1973	1976	1980	1982	1984
Age:							
18–34	2.9	4.7	4.1	4.2	3.5	3.3	3.7
35–44	4.2	5.3	6.5	6.1	5.3	5.2	5.1
45–54	6.2	9.4	9.2	8.0	8.7	8.2	8.2
55–64	10.1	12.9	14.2	14.2	14.0	13.0	13.0
Total population	5.1	7.2	7.2	6.9	6.4	6.0	6.2

Source: Robert Haveman and Barbara Wolfe "The Disabled from 1962 to 1984: Trends in Number, Composition and Well-Being," unpublished paper, 1986.

RECENT LEGISLATIVE CHANGES

98TH CONGRESS: THE DISABILITY BENEFITS REFORM ACT OF 1984

Public Law 98-460, the Disability Benefits Reform Act of 1984, made several substantial changes in the standards for review of disability beneficiaries, and in other provisions of the program as well. The following is a summary of the new law.

1. Medical improvement standard

Public Law 98-460 establishes a medical improvement standard under which the Secretary may terminate disability benefits on the basis that the person is no longer disabled only if:

(1) There is substantial evidence demonstrating that (a) there has been any medical improvement in the individual's impairment or combination of impairments (other than medical improvement which is not related to the person's ability to work), (b) the individual is now able to engage in substantial gainful activity (SGA); or

(2) There is substantial evidence consisting of new medical evidence and a new assessment of RFC which demonstrates that although there is no medical improvement, (a) the person has benefited from advances in medical or vocational therapy or technology related to ability to work, and (b) that he or she is now able to perform SGA; or

(3) There is substantial evidence that although there is no medical improvement (a) the person has benefited from vocational therapy and (b) the beneficiary can now perform SGA; or

(4) There is substantial evidence that, based on a new or improved diagnostic techniques or evaluations, the person's impairment or combination of impairments is not as disabling as it was considered to be at the time of the prior determination, and that therefore the individual is able to perform SGA; or

(5) There is substantial evidence either in the file at the original determination or newly obtained showing that the prior determination was in error; or

(6) There is substantial evidence that the original decision was fraudulently obtained; or

(7) If the individual is engaging in SGA (except where he or she is eligible under Section 1619), fails without good cause to cooperate in the review or follow prescribed treatment or cannot be located.

In making the determination, the Secretary shall consider the evidence in the file as well as any additional information concerning the claimant's current or prior condition secured by the Secretary or provided by the claimant.

Determinations under this provision must be made on the basis of the weight of the evidence, and on a neutral basis with regard to the individual's condition, without any inference as to the presence or absence of disability based on the previous finding of disability.

Regulations must be issued within 6 months.

Effective date: Applies only with respect to the following categories:

(1) Determinations by the Secretary made after date of enactment;

(2) Cases pending at any level of the administrative process on the date of enactment;

(3) Cases of individual litigants pending in Federal court on the date of the conference report is filed;

(4) Cases of named plaintiffs in class action suits pending on that date;

(5) Cases of unnamed plaintiffs in class action suits certified prior to that date; and

(6) Cases where a request for judicial review is made on a decision of the Secretary made during the 60 days preceding enactment;

Cases in categories (3), (4), (5), and (6) will be remanded to the Secretary for review under this standard. Individuals in (5) will be sent a notice via certified mail informing them that they have 120 days after the date of receipt of the notice to request a review under the medical improvement standard.

No class action may be certified after the date the conference report is filed which raises the issue of medical improvement with respect to an individual whose benefits were terminated prior to that date.

Persons whose cases are remanded to the Secretary will receive benefits pending the Secretary's decision and appeal of that decision if they so elect. If found eligible, any person whose case was remanded under this provision will receive benefits retroactive to the date they were last found ineligible.

2. Evaluation of pain

The Secretary of HHS is required, in conjunction with the National Academy of Sciences, to conduct a study concerning the questions of using subjective evidence of pain in determining whether a person is under a disability, and the state of the art of preventing, reducing or coping with pain. This study is due to the House Committee on Ways and Means and the Senate Committee on Finance by December 31, 1985.

The following statutory standard is established, to be in effect until December 31, 1986:

> An individual's statement as to pain or other symptoms shall not alone be conclusive evidence of disability as defined in this section; there must be medical signs and findings, established by medically acceptable clinical or laboratory diagnostic techniques which show the existence of a medical impairment that results from anatomical, physiological or psychological abnormalities which could reasonably be expected to produce the pain or other symptoms alleged and which, when considered with all evidence required to be furnished under this paragraph (including statements of the individual or his physician as to the intensity and persistence of such pain or other symptoms which may reasonably be accepted as consistent with the medical signs and findings), would lead to a conclusion that the individual is under a disability. Objective medical evidence of pain or other symptoms established by medically acceptable clinical or laboratory techniques (for example, deteriorating

nerve or muscle tissue), must be considered in reaching a conclusion as to whether the individual is under a disability.

3. Multiple impairments

In determining whether a person's impairment or impairments are of a sufficient medical severity to be the basis of a finding of eligibility for benefits, the Secretary must consider the combined effect of all of the person's impairments, whether or not any one impairment would alone be severe enough to qualify the person for benefits. Provision applies to all determinations made on or after 30 days after enactment.

4. Moratorium on mental impairment reviews

A moratorium is imposed on reviews of all cases of mental impairment disability until the mental impairment criteria in the Listing of Impairments are revised to realistically evaluate the person's ability to engage in SGA in a competitive workplace environment. The revised criteria are to be published within 120 days of the date of enactment. The moratorium applies to all cases on which an administrative or judicial appeal was pending on or after June 7, 1983. All persons claiming benefits based on mental impairment disability who received an unfavorable initial or continuing disability decision after March 1, 1981 could reapply for benefits within 12 months of enactment.

5. Pretermination notice

The Secretary is required to initiate demonstration projects on providing face-to-face interviews for (1) pretermination continuing disability cases and (2) for all initial denial cases, in lieu of face-to-face evidentiary hearings at reconsideration, to be done in at least five States with a report due to the Committees on Ways and Means and Finance April 1, 1986. The Secretary is also required to notify individuals, upon initiating a periodic eligibility review, that termination of benefits could be the result of the review, and that medical evidence may be provided.

6. Continuation of benefits during appeal

Public Law 98-460 provides for continuation of benefits during appeal for all continuing disability review cases through the decision of the administrative law judge, at the election of the individual. Where the ALJ's decision is adverse to the individual, these benefits would have to be repaid. The provision is permanent for SSI disability recipients, and will apply to title II disability beneficiaries through December 1987. The Secretary is required to report to Congress on the impact of this provision by July 1, 1986.

7. Qualifications of medical professionals

The Secretary is to make every reasonable effort, in cases based on mental impairments, to insure that a qualified psychiatrist or psychologist complete the medical portion of the case review and of the residual functional capacity assessment before any determination may be made that an individual is not disabled. The Secretary has the authority to contract directly for such services if the State agency is unable to do so.

8. Standards for consultative examinations/medical evidence

The Secretary is to promulgate regulations regarding consultative examinations, including when they should be obtained, the type of referral to be made, and the procedures for monitoring the referral process. The Secretary must make every effort to obtain necessary medical evidence from the treating physician before evaluating medical evidence from any other source. The Secretary must also consider all evidence in the case record and development of complete medical history over at least the preceding 12-month period.

9. Administrative procedure and uniform standards

Regulations are to be published setting forth uniform standards for DI and SSI disability determinations under section 553 of the Administrative Procedure Act, to be binding at all levels of adjudication.

10. Nonacquiescence

The agreement to drop both the House and Senate provisions is not to be interpreted as approval of the practice of "nonacquiescence", that the conferees note that questions have been raised about the constitutional basis of the practice, that many of the conferees have strong concerns about the current application of the practice, and that a policy of nonacquiescence should be followed only where steps have been taken or are intended to be taken to receive a review of the disputed issue in the Supreme Court. The conferees also urge the Secretary to seek a resolution of the nonacquiescence issue in the Supreme Court.

11. Payment of costs of rehabilitation services

Reimbursement to State agencies is allowed for costs of VR services provided to individuals receiving DI benefits under section 225(b) of the Social Security Act who medically recover while in VR, whether or not the person worked at SGA for 9 months, and whether or not the person failed to cooperate in the program.

12. Direction for Quadrennial Social Security Advisory Council

The next quadrennial advisory council (as required in the Social Security Act) is to study the medical and vocational aspects of disability using ad hoc panels of experts where appropriate. The study must include alternative approaches to work evaluation for SSI recipients, effectiveness of VR programs, and other disability program policies, standards, and procedures. The Secretary must appoint the members by June 1, 1985.

13. Staff attorneys

The Secretary is to report, within 120 days of enactment, to the Committees on Ways and Means and Finance, on the actions taken by the Secretary to establish positions which enable staff attorneys to gain the qualifying experience and quality of experience necessary to compete for ALJ positions. Statement of managers states that it is assumed, given recent OPM actions, that statutory requirements for establishing specific positions are not required, and

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that the Secretary is urged to take all reasonable steps to see that the OPM actions result in SSA staff attorneys becoming qualified for GS–15 ALJ positions.

14. SSI benefits for persons working despite impairment

Public Law 98–460 extends Sections 1619 (a) and (b) through June 30, 1987, and requires the Secretaries of HHS and Education to establish training programs for staff personnel in SSA district offices and State VR agencies, and disseminate information to SSI applicants, recipients, and potentially interested public and private organizations. Effective retroactive to January 1, 1984.

15. Frequency of continuing eligibility reviews

The Secretary is required to promulgate regulations establishing standards for determining the frequency of continuing eligibility reviews. Final regulations must be issued within 6 months; until that time, no individual may be subject to more than one periodic review.

16. Representative payees for Social Security and SSI beneficiaries

The Secretary is required to (1) evaluate qualifications of prospective payees prior to or within 45 days following certification, (2) establish a system of annual accountability monitoring where payments are made to someone other than a parent or spouse living in the same household with the beneficiary, and (3) report to Congress on implementation, and annually on the number of cases of misused funds and disposition of such cases.

Despite the effective dates established in the law, regulations implementing Public Law 99–460 did not begin to be promulgated until the summer of 1985. The medical improvement regulation was not finally issued until December 1985. As a consequence, continuing disability reviews were not begun again until January 1986; thus, no data are yet available on the actual impact of the new law on the review process. Only a small number of reviews were completed in 1986, and those that were completed were focused in most instances on cases in which medical improvement was not expected. Few cessations have occurred, and there is not yet sufficient data to gage the effects of the 1984 amendments on the program.

TABLE 13.—ESTIMATED OUTLAYS RESULTING FROM THE MAJOR PROVISIONS IN PUBLIC LAW 98–460, THE SOCIAL SECURITY DISABILITY BENEFITS REFORM ACT OF 1984

[By fiscal year, in millions of dollars]

	1985	1986	1987	1988	1989
Termination of benefits based on medical improvement:					
DI	86	123	130	136	133
HI and SMI	25	35	40	40	40
Medicaid	3	4	4	4	4
SSI	3	4	4	4	4
Multiple impairments:					
DI	4	7	11	13	15
HI and SMI	(1)	(1)	1	2	2
Medicaid	(1)	1	1	1	1
SSI	1	2	2	3	3
Continued payment during appeal:					
DI	149	134	114	60	−20
HI and SMI	48	50	40	15	0
Medical personnel qualifications:					
DI	(1)	(1)	10	10	20
HI and SMI	(1)	(1)	1	1	3
Medicaid	(1)	(1)	1	1	2
SSI	(1)	(1)	2	2	5
Vocational rehabilitation:					
DI	2	4	7	8	8
HI and SMI	(1)	(1)	(1)	(1)	(1)
SSI	(1)	(1)	(1)	(1)	(1)
Extension of sections 1619a and 1619b:					
Medicaid	10	7	6	0	0
SSI	1	2	2	0	0
Total:					
DI [2]	220	243	247	216	140
HI and SMI	73	85	82	58	45
Medicaid	13	12	12	6	7
SSI	5	8	10	9	12
Total outlays [2]	311	348	351	289	204

[1] Less than $500,000.

[2] The details do not add to the totals due to interaction between provisions.

Note: Preliminary estimates.

Source: Congressional Budget Office.

Section 3. Social Security Financing

Overview

This section presents an overview of the financing of the old-age, survivors, and disability insurance (OASDI) trust funds, and provides a summary of the short- and long-term projections for the financial solvency of these funds under a variety of demographic and economic assumptions.

Current Law Financing

The social security programs (OASDHI) are financed through the payroll tax and from income taxes paid on social security benefits on a pay-as-you-go basis; that is, most of current income to the system goes out directly to meet current benefit obligations. Any funds collected in excess of the amount needed to make benefit payments are held in the trust funds as reserves, and are invested in Government securities. These reserves serve as a cushion against temporary shortfalls in revenues or large increases in outlays due to economic fluctuations; the reserves also provide interest revenues to the trust funds. As a result of the Social Security Admendments of 1983, OASDI reserves are projected to build rapidly in the next quarter century, in part to advance fund the retirement of the "baby boom" generation.

Trust fund income is dependent on the amount of wages covered by social security on which contributions are made according to the payroll tax rate for each year. Benefit outlays are made under a permanent appropriation, in the amount to which beneficiaries are entitled based on their earnings records, and are not limited to the amount of revenue flowing into the trust fund from contributions and interest. If, as has occurred in the early part of the decade, yearly income is insufficient to cover benefit payments, reserve funds are used to make up the difference.

The payroll tax (known as FICA, or Federal Insurance Contributions Act) is levied on wages in employment covered by social security, with portions of the total tax rate allocated by law to each of the three trust funds (OASI, DI and HI). All persons who work in covered employment pay this mandatory tax on their earnings up to a maximum dollar amount (known as the contribution and benefit base, or earnings base). Employers pay an equal tax rate for these workers. Beginning in 1984 self-employed workers pay social security taxes that are equivalent to the combined employer-employee rate and receive a partial credit against that tax through 1989. Under current law, as of January 1987, the tax paid by both the employer and employee is 7.15 percent of the first $43,800 of earnings (self-employed persons pay 12.3 percent). Future increases in the tax rates are set in the law, while increases in the earnings

base are automatic, based on the increase in average wages in the economy (excluding self-employment earnings) each year. Table 1 summarizes the payroll tax schedule both historically and under the provisions of current law.

TABLE 1.—SELECTED PAYROLL TAX RATE AND WAGE BASE LEVELS, HISTORICALLY AND UNDER CURRENT LAW

	Wage base	Contribution rate (percent) employer/employee each			
		Total	OASI	DI	HI
1937	$3,000	1.0	1.0	.....	.....
1950	3,000	1.5	1.5	.....	.....
1955	4,200	2.0	2.0	.....	.....
1959	4,800	2.5	2.25	0.25	.....
1966	6,600	4.2	3.5	.35	0.35
1970	7,800	4.8	3.65	.55	.60
1974	13,200	5.85	4.375	.575	.90
1978	17,700	6.05	4.275	.775	1.00
1979	22,900	6.13	4.33	.75	1.05
1981	29,700	6.65	4.70	.65	1.30
1982	32,400	6.70	4.575	.825	1.30
1984	37,800	[1] 7.00	5.20	.50	1.30
1985	39,600	7.05	5.20	.50	1.35
1986	42,000	7.15	5.20	.50	1.45
1987	43,800	7.15	5.20	.50	1.45
1988–89	([2])	7.51	5.53	.53	1.45
1990–99	([2])	7.65	5.60	.60	1.45
2000 and after	([2])	7.65	5.49	.71	1.45

[1] A tax credit of 0.3 percent of taxable wages was allowed against the tax paid by employees, so that the effective employee withholding rate for 1984 was 6.7 percent.

[2] Subject to automatic increase.

Source: Social Security Bulletin, Annual Statistical Supplement, 1986, Table D.

TABLE 2.—CURRENT LAW SOCIAL SECURITY PAYROLL TAX RATES FOR SELF-EMPLOYED INDIVIDUALS, BY INDIVIDUAL AND COMBINED TRUST FUNDS, 1980 AND AFTER

Calendar year	OASI	DI	OASDI combined	HI	OASDHI combined
1980	6.2725	0.7775	7.05	1.05	8.10
1981	7.0250	0.9750	8.00	1.30	9.30
1982	6.8125	1.2375	8.05	1.30	9.35
1983	7.1125	0.9375	8.05	1.30	9.35
1984	10.4000	1.0000	11.40	2.60	[1] 14.00
1985	10.4000	1.0000	11.40	2.70	[1] 14.10
1986–87	10.4000	1.0000	11.40	2.90	[1] 14.30
1988–89	11.0600	1.0600	12.12	2.90	[1] 15.02
1990–99	11.2000	1.2000	12.40	2.90	15.30
2000 and after	10.9800	1.4200	12.40	2.90	15.30

[1] Excludes tax credits, which equalled 2.7 percent in 1984, 2.3 percent in 1985, and 2.0 percent for the years 1986 through 1989.

Source: Social Security Bulletin, Annual Statistical Supplement, 1986, Table D.

In 1940, approximately 24 million persons worked in employment covered by the social security system. Over the years, major categories of workers were brought under the system, such as State and local government employees (on a voluntary basis), regularly employed farm and domestic workers, members of the armed services, and self-employed professionals such as physicians and lawyers. In 1982, over 116 million workers and 95 percent of all jobs in the United States were covered under social security. The present law social security earnings base, as revised by the 1977 Amendments and updated automatically according to wage increases in the economy, provides that about 90 percent of all covered earnings are taxable.

While coverage is compulsory for most types of employment, approximately 8 million jobs were exempt from coverage under social security prior to 1984. The majority of these noncovered positions were and still are in the Federal Government, whose employees have not generally been allowed to participate in social security and in State and local governments. Beginning January 1, 1983, Federal employees were covered under the medicare portion of the social security tax, and as of January 1, 1984, all new Federal employees are covered under the OASDI portion as well. About 70 percent of State and local government jobs (10 million out of 14.6 million jobs), and about 80 percent of nonprofit organization jobs were covered by social security as of 1981. Beginning January 1, 1984, all employees of nonprofit organizations are covered, and no terminations of social security coverage by State government entities are allowed. As of April 1, 1986, all newly hired State and local employees are covered under the Medicare program and must pay HI payroll taxes. Table 4 shows State-by-State data on State and local government jobs covered in 1984.

TABLE 3.—SOCIAL SECURITY COVERAGE, 1984

[In millions]

Occupational group	Number of employees	Covered [1]	
		Number	Percent
Specifically exempt from OASI coverage:			
Federal Civilian employees	3.9	0.9	[2] 23.1
Voluntary coverage:			
State and local government	14.6	10.0	68.7
Mandatorily covered:			
Industry and commerce	82.1	81.9	99.8
Nonprofit [3]	6.8	6.8	100.0
Farm [3]	1.9	1.6	84.0
Domestic [3]	1.6	.5	29.5
Self-employed [3]	9.2	7.0	76.0

[1] Data on covered employment are estimated based upon class of worker of major job in which employed over the year 1984.

[2] Federal employees who are temporary or who work for quasi-Federal agencies such as TVA are covered. The 1983 Social Security Amendments covered Federal employees hired after 1983, as well as all nonprofit employees, current and future.

[3] Mandatorily covered if special minimum coverage requirements met. Special minimum requirements for coverage generally relate to amount of wages earned—for example, domestic employees must receive at least $50 from one employer during a calendar quarter for those wages to be covered.

Source: Office of Research and Statistics, Social Security Administration.

TABLE 4.—ESTIMATES OF SOCIAL SECURITY COVERAGE OF WORKERS WITH STATE AND LOCAL GOVERNMENT EMPLOYMENT AS THEIR MAJOR JOB IN 1984 [1]

[Numbers in thousands]

State	All workers	Covered workers	Percent covered
Total	14,531	9,985	69
Alabama	245	218	89
Alaska	58	18	31
Arizona	182	161	89
Arkansas	145	127	87
California	1,563	572	37
Colorado	197	47	24
Connecticut	170	107	63
Delaware	41	27	66
Florida	597	470	79
Georgia	351	287	82
Hawaii	72	48	67
Idaho	64	64	100
Illinois	626	327	52
Indiana	320	266	83

TABLE 4.—ESTIMATES OF SOCIAL SECURITY COVERAGE OF WORKERS WITH STATE AND LOCAL GOVERNMENT EMPLOYMENT AS THEIR MAJOR JOB IN 1984 [1]—Continued

[Numbers in thousands]

State	All workers	Covered workers	Percent covered
Iowa	199	194	98
Kansas	167	165	99
Kentucky	210	154	73
Louisiana	320	49	15
Maine	74	22	29
Maryland	288	259	90
Massachusetts	334	0	0
Michigan	534	515	96
Minnesota	291	195	67
Mississippi	156	154	99
Missouri	286	224	78
Montana	64	59	91
Nebraska	118	116	98
Nevada	52	3	6
New Hampshire	55	49	90
New Jersey	475	445	94
New Mexico	120	87	73
New York	1,279	1,126	88
North Carolina	394	351	89
North Dakota	55	49	90
Ohio	595	0	0
Oklahoma	223	190	85
Oregon	184	170	93
Pennsylvania	590	554	94
Rhode Island	58	33	57
South Carolina	208	202	97
South Dakota	52	50	95
Tennessee	248	219	88
Texas	971	485	50
Utah	102	101	99
Vermont	35	34	98
Virginia	391	319	82
Washington	285	249	87
West Virginia	128	121	94
Wisconsin	309	261	84
Wyoming	51	46	90

[1] Major job is determined by type of employment of longest job (all workers) and of job with largest amount of covered wages (covered workers).

Source: Office of Research and Statistics, Social Security Administration.

Current Short-Range Status of the Trust Funds

An assessment of the short-range status of the trust funds depends heavily on the economic assumptions underlying the estimates, because both the revenues and expenditures of the program are tremendously affected by general economic trends such as unemployment, wage growth, and inflation. Tables 5 and 6 present short-term projections of the financial status of the trust funds under the assumptions contained in the President's Fiscal Year 1988 budget and the Congressional Budget Office baseline, respectively.

TABLE 5.—ESTIMATED OPERATIONS OF THE OASI, DI, HI, AND OASDHI TRUST FUNDS BASED UPON PRESIDENT'S 1988 BUDGET ASSUMPTIONS

[In billions of dollars]

	Fiscal year—						
	1986	1987	1988	1989	1990	1991	1992
Old-age and survivors insurance:							
Outlays	178.5	187.2	198.0	210.2	223.6	237.3	250.3
Income	195.3	207.2	235.9	258.8	281.2	302.9	321.9
Year-end balance	37.5	57.5	95.5	144.0	201.6	267.2	338.9
Start-of-year balance (as percent of outlays) [1]	26	27	37	53	72	93	115
Disability insurance:							
Outlays	20.2	20.8	21.6	22.7	23.8	25.0	26.4
Income	20.1	20.2	22.7	24.7	28.9	32.0	34.1
Year-end balance	8.3	7.7	8.8	10.9	16.0	23.0	30.7
Start-of-year balance (as percent of outlays) [1]	35	46	42	46	53	72	96
Combined OASI and DI:							
Outlays	198.7	208.0	219.6	232.9	247.4	262.4	276.6
Income	215.5	227.4	258.7	283.5	310.2	335.0	356.0
Year-end balance	45.9	65.2	104.3	154.9	217.6	290.2	369.6
Start-of-year balance (as percent of outlays) [1]	26	29	37	53	71	91	113
Hospital insurance:							
Outlays	49.7	48.3	52.6	57.2	61.7	65.9	70.1
Income	56.4	62.6	67.8	73.0	78.3	83.5	88.6
Year-end balance	38.6	53.0	68.3	84.1	100.7	118.3	136.7
Start-of-year balance (as percent of outlays)	43	80	101	119	136	153	169
Combined OASI, DI, and HI:							
Outlays	248.4	256.3	272.2	290.0	309.2	328.3	346.8
Income	271.9	290.0	326.5	356.5	388.5	418.5	444.6
Year-end balance	84.5	118.2	172.5	239.0	318.3	408.5	506.3
Start-of-year balance (as percent of outlays) [1]	30	38	49	66	84	104	124

[1] Assets at beginning of year are defined for the OASI and DI Trust Funds as assets at end of prior year plus the respective OASI and DI advance tax transfers for October.

Source: Office of the Actuary, Social Security Administration and Office of the Actuary, Health Care Financing Administration.

TABLE 6.—CURRENT LAW PROJECTIONS OF SOCIAL SECURITY TRUST FUND OUTLAYS, INCOMES, AND BALANCES UNDER CBO'S BASELINE SET OF ECONOMIC ASSUMPTIONS

[By fiscal year, in billions of dollars]

	Fiscal year—						
	1986	1987	1988	1989	1990	1991	1992
Old Age and Survivors Insurance:							
Total outlays	179.6	187.4	199.2	212.7	228.1	244.2	261.0
Income[1]	183.2	207.4	235.0	257.8	282.2	305.6	329.4
Year-end balance	37.5	57.5	93.3	138.4	192.5	253.9	322.4
Start-of-year balance (as percent of outlays)[2]	26	27	37	52	69	87	106
Disability Insurance:							
Total outlays	20.2	21.2	22.4	23.7	25.1	26.5	28.0
Income[1]	22.7	20.1	22.6	24.6	28.9	32.1	34.6
Year-end balance	8.3	7.2	7.5	8.3	12.2	17.9	24.4
Start-of-year balance (as percent of outlays)[2]	35	45	39	39	41	54	72
Combined OASI and DI:							
Total outlays	199.8	208.6	221.6	236.3	253.1	270.7	289.0
Income[1]	205.9	227.6	257.6	282.3	311.1	337.8	364.0
Year-end balance	45.9	64.8	100.7	146.7	204.7	271.8	346.8
Start-of-year balance (as percent of outlays)[2]	27	29	37	51	66	84	102
Hospital Insurance:							
Total outlays	49.7	50.1	57.5	62.8	70.0	77.3	85.4
Income[1]	67.1	62.4	67.3	72.2	77.7	83.1	88.5
Year-end balance	38.6	51.0	60.8	70.2	78.0	83.7	86.9
Start-of-year balance (as percent of outlays)[2]	43	77	89	97	100	101	98
Combined OASI, DI, and HI:							
Total outlays	249.5	258.7	279.1	299.1	323.1	348.0	374.4
Income[1]	273.3	289.9	324.8	354.5	388.9	420.8	452.5
Year-end balance	84.8	116.1	161.8	217.3	283.0	355.9	434.0
Start-of-year balance (as percent of outlays)[2]	30	38	48	61	74	88	102

[1] Income to the trust funds is budget authority, and includes payroll tax receipts, interest on investments, certain general fund transfers, and repayment of interfund borrowing loans.

[2] Start-of-year balance for OASI and DI are computed as the balances at the end of the previous year plus normalized tax transfers at the beginning of the year.

Source: Congressional Budget Office estimates based on January 1987 baseline economic assumptions.

Status of OASDI trust fund

Under the President's budget as well as CBO baseline assumptions, the combined OASDI trust funds will continue the growth begun in 1984, at a relatively slow rate through 1987. Beginning in 1988, when the second accelerated increase in the tax rates occurs,

the trust funds are expected to grow more rapidly. Yearly surpluses in the OASDI trust funds (i.e., excess of revenues over benefit outlays) will continue to increase, reaching almost $80 billion per year by 1992. Throughout the 1990's, and for some period into the next century, the favorable demographic pattern of a large baby-boom generation at peak earning years combined with the retirement of the relatively small generation born during the depression should insure large trust fund reserves.

For the combined OASDI funds, under the President's budget assumptions, the trust fund reserve ratio is estimated to increase from 26 percent at the beginning of 1986 to 29 percent for 1987, and then increase each year thereafter, reaching 53 percent by 1989 and 113 percent by 1992. A similar pattern of increase is shown under the CBO baseline assumptions, although slightly lower reserves are projected under those projections. This increase includes, in the balance at the beginning of each fiscal year, the tax receipts for October which are to be transferred on the first day of the month under the provision for advance transfer of taxes to the trust funds.

Budgetary treatment of OASDI trust funds

The Balanced Budget and Emergency Deficit Control Act of 1985 contains two provisions dealing with the budgetary treatment of the OASDI trust fund operations. The Act amended the Social Security Act to provide that the operations of the OASDI trust funds, scheduled to be taken off-budget beginning in fiscal year 1993 under the 1983 Amendments, would be taken off-budget beginning with fiscal year 1986. The Act also required, however, that the operations of the OASDI trust funds be taken into account as part of the budget in determinations having to do with calculation of the maximum deficit amount under the Balanced Budget Act. The effect of these two provisions is to effectively continue to include the OASDI trust fund operations in the Federal budget for purposes of meeting the maximum deficit amount targets throughout the 5 years in which the Balanced Budget Act is in effect.

The result is that the surpluses generated in the OASDI system are included in calculating the amount of revenue or spending reduction needed to meet the mandatory targets. These surpluses, according to the President's Budget will range from about $39 billion in fiscal year 1988 to around $80 billion in fiscal year 1992. Without inclusion of the trust funds in the budget for this purpose, therefore, at least $39 billion more would have to be found either through revenue increases or spending reductions to meet the $108 billion target mandated by law for fiscal year 1988.

Long Range Status of the Trust Funds

OASDI trust funds

Because the social security program has been designed as a contributory system in which those who pay the taxes supporting it are considered to be earning the right to future benefits, Congress has traditionally required long-range estimates of the program's ac-

tuarial balance and has set future tax rates with a view to assuring that the income of the program will be sufficient to cover its outgo. Under current procedures, the long-range actuarial analysis of the cash benefits program covers a 75-year period—this would generally be long enough to cover the anticipated retirement years of those currently in the work force.

The long-range status of the social security trust funds is ordinarily expressed in terms of "percent of taxable payroll" rather than in dollar amounts. This permits a direct comparison between the tax rate actually in the law and the cost of the program. For example, if the program is projected to have a deficit of "1 percent of taxable payroll," this means that the social security tax rates now in the law would have to be increased by 0.5 percent points for employee and employer, each, in order to pay for the benefits due under present law. (Alternatively, the program could be brought back into balance by an equivalent reduction in benefit outgo or by a combination of revenue increases and outgo reductions.) If the program is projected to have a deficit of 1.5 percent of taxable payroll and expenditures are projected to be 10 percent of taxable payroll, then, under the given set of assumptions, 15 percent (1.5 divided by 10) of expenditures could not be met with that tax schedule. In 1986, the total taxable payroll amounted to approximately $1.8 trillion so that in 1986 terms, 1.5 percent of payroll represented about $28 billion.

In the short range, the financial soundness of each of the trust funds can be assessed by considering the size of the trust fund balance, in absolute terms and as a percentage of the annual expenditures, and whether the balance is growing or declining. In the long range, the traditional measure of financial soundness has been the actuarial balance of the system. The actuarial balance is defined as the difference between the total income rate and the total cost rate. If the average income rate is between 95 percent and 105 percent of the average cost rate, over the 75-year long-range projection period, the system is said to be in close actuarial balance.

The long-range financial condition of the social security programs will be determined by three types of long-range factors: demographic factors such as rates of fertility, life expectancy, and labor force participation which determine how many workers there will be in the society in relation to non-working beneficiaries; economic factors such as unemployment, productivity, and inflation; and social security program factors, such as benefit levels, total number of covered workers, and percent of eligible workers drawing early retirement benefits.

In projecting the long-term condition of the OASDI trust funds, the actuaries at the Social Security Administration employ four sets of alternative economic and demographic assumptions. Alternative I is based on optimistic assumptions, alternatives II–A and II–B on moderate assumptions, and alternative III on pessimistic assumptions. In general, alternative II–B is considered the most balanced estimate of long-term solvency.

It is clear that these factors cannot be predicted with any certainty as far into the future as 75 years, and the long-range projections should not be taken as absolute predictions of deficits or surpluses in the funds.

Table 7 shows a comparison of the estimated cost rate with the estimated income rate for selected years from 1986 through 2060. The income rate is the sum of the scheduled tax rate and the income from taxation of benefits expressed as a percentage of taxable payroll. On the basis of the 1986 alternative II–B assumptions, estimated income will exceed the estimated cost of the program through the second decade of the next century. After the year 2020, income from scheduled payroll taxes and from the taxation of benefits will not be large enough to cover estimated annual costs, although the accumulated trust fund balance will be sufficient to allow the program to continue operating satisfactorily for many years. The average actuarial balances are estimated to be a surplus of 2.12 percent of taxable payroll for the first 25 years of the long-range projection period and a deficit of 0.89 percent for the second 25 years. The surplus is offset by an estimated deficit of 2.56 percent of taxable payroll in the third 25-year period of the 75-year projection period.

Table 8 shows the estimates of OASI and DI trust fund ratios for each year from 1981 through 2060. As a percent of annual expenditures, the combined assets of the OASI and DI trust funds are estimated to grow until the latter part of the second decade in the next century, reaching levels of about 526 percent of annual expenditures in 2015. Thereafter, the combined trust fund ratios decline steadily to less than 50 percent by 2049.

The trust fund ratio for OASI exhibits a similar pattern—increasing to about 582 percent in the second decade of the next century and declining thereafter to less than 50 percent by 2053. The DI trust fund increases to about 270 percent of annual expenditures by the first decade of the next century and declines to exhaustion by the year 2027.

TABLE 7.—ESTIMATED LONG-RANGE OASDI ANNUAL COST RATE, INCOME RATE, AND ACTUARIAL BALANCE UNDER THE PROGRAM BASED ON ALTERNATIVE II–B OF 1986 TRUSTEES' REPORTS

[Percent of taxable payroll]

Year	Cost rate			Income rate			Balance [1]		
	OASI	DI	OASDI	OASI	DI	OASDI	OASI	DI	OASDI
1986	9.98	1.13	11.11	10.59	1.01	11.61	+.61	−.12	+.50
1987	9.93	1.09	11.02	10.61	1.01	11.62	+.68	−.07	+.60
1988	9.99	1.07	11.07	11.29	1.07	12.36	+1.29	.00	+1.30
1989	9.89	1.05	10.94	11.30	1.08	12.38	+1.42	+.03	+1.45
1990	9.96	1.04	11.00	11.51	1.22	12.74	+1.55	+.19	+1.74
1991	9.94	1.03	10.96	11.49	1.22	12.71	+1.55	+.19	+1.75
1992	9.90	1.02	10.92	11.51	1.22	12.73	+1.61	+.20	+1.82
1993	9.88	1.01	10.89	11.54	1.22	12.76	+1.66	+.21	+1.87
1994	9.88	1.02	10.90	11.57	1.22	12.79	+1.69	+.21	+1.89
1995	9.90	1.03	10.92	11.60	1.23	12.83	+1.71	+.20	+1.91
1996	9.74	1.04	10.78	11.60	1.23	12.83	+1.85	+.19	+2.05
1997	9.58	1.05	10.63	11.59	1.23	12.82	+2.01	+.18	+2.19
1998	9.42	1.07	10.49	11.58	1.23	12.81	+2.17	+.16	+2.32
1999	9.26	1.10	10.36	11.57	1.23	12.81	+2.31	+.14	+2.45
2000	9.13	1.12	10.25	11.35	1.46	12.81	+2.22	+.33	+2.55
2001	9.01	1.15	10.16	11.34	1.46	12.80	+2.33	+.31	+2.64
2002	8.90	1.18	10.09	11.34	1.46	12.80	+2.43	+.28	+2.71
2003	8.81	1.22	10.03	11.33	1.46	12.80	+2.52	+.24	+2.77
2004	8.73	1.27	10.00	11.33	1.47	12.80	+2.60	+.20	+2.80
2005	8.64	1.31	9.95	11.32	1.47	12.79	+2.68	+.16	+2.84
2006	8.64	1.36	10.00	11.32	1.47	12.80	+2.68	+.11	+2.80
2007	8.66	1.41	10.08	11.33	1.48	12.80	+2.66	+.06	+2.72
2008	8.71	1.47	10.18	11.33	1.48	12.81	+2.62	+.01	+2.63
2009	8.81	1.51	10.32	11.34	1.48	12.82	+2.53	−.03	+2.50
2010	8.96	1.55	10.51	11.35	1.48	12.83	+2.38	−.07	+2.32
2015	10.08	1.69	11.77	11.41	1.49	12.90	+1.33	−.20	+1.13
2020	11.62	1.77	13.40	11.49	1.50	12.98	−.14	−.28	−.41
2025	12.96	1.88	14.84	11.56	1.50	13.07	−1.40	−.37	−1.77
2030	13.85	1.84	15.70	11.62	1.50	13.13	−2.23	−.34	−2.57
2035	14.15	1.78	15.93	11.66	1.50	13.16	−2.50	−.28	−2.78
2040	14.00	1.77	15.77	11.67	1.51	13.17	−2.34	−.26	−2.60
2045	13.82	1.83	15.65	11.68	1.51	13.19	−2.14	−.32	−2.46
2050	13.83	1.86	15.69	11.68	1.51	13.19	−2.15	−.35	−2.50
2055	13.92	1.85	15.77	11.68	1.51	13.19	−2.24	−.34	−2.57
2060	13.95	1.82	15.77	11.68	1.51	13.19	−2.27	−.31	−2.58
25-year averages:									
1986–2010	9.37	1.17	10.54	11.36	1.30	12.67	+1.99	+.13	+2.12
2011–2035	12.13	1.78	13.91	11.52	1.50	13.02	−.61	−.28	−.89
2036–2060	13.92	1.82	15.74	11.68	1.51	13.18	−2.24	−.31	−2.56
75-year average: 1986–2060	11.81	1.59	13.40	11.52	1.44	12.96	−.29	−.15	−.44

[1] A positive balance indicates a surplus; a negative balance indicates a deficit.

Note: The above estimates are based on the 1986 alternative II–B assumptions.

TABLE 8.—ESTIMATED LONG-RANGE OASI AND DI TRUST FUND RATIOS

[In percent]

Year	OASI	DI	OASDI	Year	OASI	DI	OASDI
1981	18	21	18	2021	538	103	481
1982	15	17	15	2022	526	86	469
1983	15	14	14	2023	512	69	455
1984	20	35	21	2024	497	50	440
1985	24	27	24	2025	481	31	424
1986	28	38	29	2026	465	11	408
1987	27	43	29	2027	449	(1)	[2] 392
1988	35	38	35	2028	432	(1)	[2] 375
1989	47	38	46	2029	414	(1)	[2] 359
1990	61	43	59	2030	397	(1)	[2] 342
1991	77	61	75	2031	380	(1)	[2] 325
1992	93	80	92	2032	362	(1)	[2] 308
1993	109	100	109	2033	345	(1)	[2] 291
1994	126	120	126	2034	328	(1)	[2] 275
1995	144	140	143	2035	311	(1)	[2] 258
1996	163	157	162	2036	295	(1)	[2] 242
1997	185	172	184	2037	280	(1)	[2] 226
1998	209	184	206	2038	264	(1)	[2] 211
1999	235	194	230	2039	248	(1)	[2] 195
2000	262	202	255	2040	233	(1)	[2] 180
2001	288	224	281	2041	218	(1)	[2] 164
2002	316	242	307	2042	203	(1)	[2] 149
2003	345	256	334	2043	189	(1)	[2] 134
2004	376	265	362	2044	174	(1)	[2] 118
2005	408	269	390	2045	159	(1)	[2] 103
2006	437	270	414	2046	145	(1)	[2] 88
2007	466	267	438	2047	130	(1)	[2] 72
2008	494	262	460	2048	115	(1)	[2] 57
2009	517	255	479	2049	100	(1)	[2] 41
2010	536	247	493	2050	85	(1)	[2] 26
2011	552	238	506	2051	69	(1)	[2] 10
2012	565	227	515	2052	54	(1)	(1)
2013	575	215	522	2053	38	(1)	(1)
2014	580	203	525	2054	22	(1)	(1)
2015	582	191	526	2055	(1)	(1)	(1)
2016	581	177	524	2056	(1)	(1)	(1)
2017	577	164	519	2057	(1)	(1)	(1)
2018	570	149	512	2058	(1)	(1)	(1)
2019	561	134	504	2059	(1)	(1)	(1)
2020	550	119	493	2060	(1)	(1)	(1)

[1] The fund is projected to be exhausted.

[2] Because the DI fund is exhausted, these ratios are theoretical and are shown for information purposes only.

Note: The above estimates are based on the 1986 alternative II–B assumptions. The trust fund ratio is defined as the ratio of the trust fund balance at the beginning of the year to the outgo during the year. After 1983, ratios reflect the inclusion of advance tax transfers for January. These estimates reflect the repayment in 1986 of the remainder ($10.6 billion) of the $12.4 billion borrowed by OASI from HI in 1982.

Economic and Demographic Assumptions

The following tables provide specific information concerning the economic and demographic assumptions which underlie the social security trustees' short and long-run financial projections.

TABLE 9.—ECONOMIC ASSUMPTIONS, 1960–2060

Calendar years	Average annual percentage increase in—				
	Real GNP	Average wages in covered employment	Consumer Price Index	Real wage differential (percent)	Average annual unemployment rate
Past experience:					
1960–64	4.0	3.4	1.3	2.1	5.7
1965–69	4.4	5.4	3.4	2.0	3.8
1970–74	2.8	6.3	6.1	.2	5.4
1975–79	3.5	8.2	8.1	−.0	7.0
1980	−.3	9.1	13.5	−4.4	7.1
1981	2.5	9.3	10.3	−1.0	7.6
1982	−2.1	6.5	6.0	.5	9.7
1983	3.7	4.9	3.0	1.9	9.6
1984	6.8	5.1	3.4	1.7	7.5
Intermediate II–B:					
1985	2.5	3.9	3.5	.3	7.2
1990	3.9	6.3	4.6	1.6	6.5
1991	2.9	5.8	4.1	1.6	6.3
1992	2.7	5.7	4.0	1.7	6.1
2000	2.4	5.6	4.0	1.6	6.0
2010 and later	[1] 2.0	5.5	4.0	1.5	6.0
Pessimistic:					
1985	2.4	3.7	3.5	.2	7.2
1986	2.5	4.9	4.2	.7	7.0
1987	.8	6.0	5.8	.2	7.4
1988	.1	4.0	5.1	−1.1	8.5
1989	3.5	7.8	5.3	2.5	7.8
1990	−.8	4.2	5.7	−1.6	8.7
2000	1.7	6.1	5.0	1.1	7.0
2010 and later	[1] 1.4	6.0	5.0	1.0	7.0

[1] This value is for the year 2010. The annual increase in real GNP is assumed to continue to change after 2010 under each alternative to reflect the dependence of labor force growth on the size and age-sex distribution of the population. The percentage increases for 2060 are 1.9 and 0.7 for Intermediate II–B and Pessimistic, respectively.

TABLE 10.—MAJOR LONG-TERM DEMOGRAPHIC AND LABOR FORCE PARTICIPATION ASSUMPTIONS

[1986 trustees' report II–B assumptions]

FERTILITY RATES

	1917	1933	1947	1957	1976	1981	1995	2010+
Children born per woman in her lifetime	3.83	2.17	3.18	3.68	1.74	1.83	1.92	2.00

LIFE EXPECTANCIES

[Using mortality for calendar year]

	1900	1940	1960	1980	2000	2020	2060
Male:							
At birth	46.4	61.4	66.7	69.9	73.9	75.1	77.1
Age 65	11.4	11.9	12.9	14.0	15.6	16.3	17.8
Female:							
At birth	49.0	65.7	73.2	77.5	81.0	82.2	84.6
Age 65	12.0	13.4	15.9	18.4	20.3	21.3	23.2

PERCENTAGE OF THOSE BORN WHO CAN EXPECT TO REACH AGE 65

[Using mortality for calandar year]

	1900	1940	1960	1980	2000	2020	2060
Male	37.3	55.5	63.8	70.5	78.6	80.3	82.8
Female	41.0	65.4	78.2	83.4	87.4	88.4	90.1

LABOR FORCE PARTICIPATION RATES

[Age adjusted]

[In percent]

	1981	1985	1990	1995	2000	2060
Male	77.8	76.8	76.4	76.1	76.1	75.7
Female	52.1	54.5	57.7	58.7	58.4	57.7

COVERED WORK FORCE—NUMBER OF BENEFICIARIES AND DEPENDENCY RATIOS

	1960	1980	2000	2020	2040
Total population (in millions)	190	235	277	309	326
Covered workers	73	113	146	154	156
Beneficiaries	14	35	44	65	81
Dependency ratio [1]	.913	.751	.677	.732	.841
Worker/beneficiary ratio	5.1	3.2	3.3	2.4	1.9

[1] Ratio of nonworking-age to working-age population—population under 20 plus population 65 and over divided by population 20–64.

PERCENT OF ELIGIBLE WORKERS DRAWING RETIREMENT BENEFITS

Selected ages	1981	1990	2000	2010 and later
62 to 64:				
Male	39.8	47.7	46.4	43.4
Female	49.1	51.7	51.6	[1] 50.3
65 to 69:				
Male	89.0	90.0	88.3	81.0
Female	86.6	84.6	84.4	[1] 80.5

[1] Source: Office of the Actuary, Social Security Administration 1987.

Sensitivity of Long-Term Projections

Long-range estimates of the financial status of the OASDI trust funds are extremely sensitive to the basic social, economic, and demographic variables that underpin the projections. Slight variations in assumptions about future demographic or economic trends can lead to substantially different financial projections, and thus any longer term estimate is necessarily very uncertain. In general terms, the income to the funds crucially depends on long-run trends in covered wages paid to employees, which in turn depends on many fundamental economic and demographic factors, such as real wage growth in the economy, fluctuations in the size of the work force, productivity, and overall rates of fertility and immigration. The expenditures of the program depend on the amount of benefits that are paid, which is of course affected by the level of consumer inflation, changes in mortality rates and life expectancy, disability incidence, and work and retirement patterns among the elderly population.

As a way of illustrating the sensitivity of long-term projections to variations in basic assumptions, table 11 presents data on the effects of varying assumptions about real wage growth in the alternative II–B estimates. As the table shows, the assumption that real wage growth will equal 1.0 percent leads to a long-range deficit of 1.23 percent of taxable payroll, as compared to real wage growth of 2.5 percent, which would yield a long-term surplus of 0.95 percent

of taxable payroll. This table is based on the premise that all other alternative II-B demographic and economic assumptions are held constant. (Under alternative II-B, the real wage growth assumption is 1.5 percent.)

TABLE 11.—ESTIMATED OASDI AVERAGE INCOME RATES, COST RATES, AND BALANCES, BASED ON ALTERNATIVE II-B WITH VARIOUS REAL-WAGE ASSUMPTIONS

[As a percentage of taxable payroll]

Calendar years	Ultimate percentage increase in wages-CPI [1]			
	5.0–4.0	5.5–4.0	6.0–4.0	6.5–4.0
Average income rate:				
1986–2010	12.68	12.67	12.65	12.64
2011–2035	13.06	13.02	12.98	12.95
2036–2060	13.25	13.18	13.13	13.08
1986–2060	13.00	12.96	12.92	12.89
Average cost rate:				
1986–2010	10.90	10.54	10.20	9.88
2011–2035	14.83	13.91	13.07	12.30
2036–2060	16.95	15.74	14.65	13.66
1986–2060	14.23	13.40	12.64	11.94
Balance:				
1986–2010	+1.78	+2.12	+2.45	+2.76
2011–2035	−1.77	−.89	−.09	+.65
2036–2060	−3.71	−2.56	−1.52	−.58
1986–2060	−1.23	−.44	+.28	+.95

[1] The first value in each pair is the assumed ultimate annual percentage increase in average wages in covered employment. The second value is the assumed ultimate annual percentage increase in the Consumer Price Index. The difference between the two values is the real-wage differential.

Source: 1986 Trustee's Report.

Tables 12 and 13 provide information on the effects of varying two other key assumptions in estimating long-term financial solvency. Table 12 shows the impact of choosing among alternative assumptions of the ultimate total fertility rate in the general population. As the table demonstrates, a total fertility rate of 1.6 percent leads to a longrun deficit of 1.54 percent of taxable payroll, while a 2.3 percent fertility rate generates a 0.20 percent of taxable payroll surplus. The middle estimate, 2.0 percent, is employe ` in the alternative II-B projections.

TABLE 12.—ESTIMATED OASDI AVERAGE INCOME RATES, COST RATES, AND BALANCES, BASED ON ALTERNATIVE II–B WITH VARIOUS FERTILITY ASSUMPTIONS

[As a percentage of taxable payroll]

Calendar years	Ultimate total fertility rate [1]		
	1.6	2.0	2.3
Average income rate:			
1986–2010	12.67	12.67	12.67
2011–2035	13.05	13.02	13.00
2036–2060	13.33	13.18	13.10
1986–2060	13.02	12.96	12.92
Average cost rate:			
1986–2010	10.51	10.54	10.56
2011–2035	14.51	13.91	13.52
2036–2060	18.64	15.74	14.08
1986–2060	14.55	13.40	12.72
Balance:			
1986–2010	+2.15	+2.12	+2.10
2011–2035	−1.46	−.89	−.52
2036–2060	−5.31	−2.56	−.97
1986–2060	−1.54	−.44	+.20

[1] The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire child-bearing period. The ultimate total fertility rate is assumed to be reached in 2010.

Source: 1986 Trustee's Report.

Table 13 displays the effects of varying the death-rate assumptions in the alternative II-B estimate. The assumption that the age-sex-adjusted death rate will drop by 23 percent over the period 1984 through 2060 leads to a 0.15 percent surplus in taxable payroll in the long run, while a 60 percent drop in the death rate produces a long-range taxable payroll deficit of 1.30 percent of taxable payroll. The baseline death-rate assumption under alternative II-B is 39 percent.

TABLE 13.—ESTIMATED OASDI AVERAGE INCOME RATES, COST RATES, AND BALANCES, BASED ON ALTERNATIVE II-B WITH VARIOUS DEATH-RATE ASSUMPTIONS

[As a percentage of taxable payroll]

Calendar years	Reduction in death rates[1]		
	23 percent	39 percent	60 percent
Average income rate:			
1986–2010	12.66	12.67	12.67
2011–2035	12.99	13.02	13.06
2036–2060	13.13	13.18	13.27
1986–2060	12.93	12.96	13.00
Average cost rate:			
1986–2010	10.38	10.54	10.70
2011–2035	13.31	13.91	14.68
2036–2060	14.63	15.74	17.52
1986–2060	12.78	13.40	14.30
Balance:			
1986–2010	+2.28	+2.12	+1.97
2011–2035	−.32	−.89	−1.62
2036–2060	−1.50	−2.56	−4.24
1986–2060	+.15	−.44	−1.30

[1] The measure of the reduction in death rates is the decrease in the age-sex-adjusted death rate during 1984–2060.

Source: 1986 Trustee's Report.

Similar, though less drastic, variations occur when assumptions related to net immigration, inflation, disability incidence, and other factors are modified. This sensitivity underscores the uncertainty of long-term financial estimates.

APPENDIX A. STATISTICAL HISTORY AND FUTURE BENEFIT PROJECTIONS OF THE SOCIAL SECURITY PROGRAMS

The Social Security Act of 1935 was signed into law on August 14, 1935. The immediate origin of this legislation was the Committee on Economic Security which had been charged by President Roosevelt with the task of devising safeguards "against misfortune which cannot be wholly eliminated in the man-made world of ours."

In addition to the Federal old-age retirement program (title II), the original Social Security Act also included grants-in-aid to States for: old-age pensions based on need (title I); unemployment compensation systems (title III); aid to dependent children (title IV); maternal and child welfare services, the care of crippled children and vocational rehabilitation (title VI).

The original act has been amended on numerous occasions since 1935. However, the most significant changes to title II were made by the Social Security Amendments of 1939, 1950, 1954, 1956, 1965, 1972, 1977, and 1983. In addition, the medicare (title XVIII) program was added to the Social Security Act in 1965.

Today the term "social security" is seldom used to refer to all of the programs included in the Social Security Act. The term is most often used to refer to either solely title II, the old-age and survivor program insurance program and, since 1956, the disability insurance program, or to both title II and to title XVIII, the medicare program. This appendix presents historical data concerning the coverage, benefits and financing of each of the three programs.

COVERAGE

The original Social Security Act provided coverage on a mandatory basis under the old-age insurance program of all employees in commerce and industry (except railroad) under age 65. Specifically excluded from coverage "due to difficulties in collecting the tax" were the following services: agricultural labor; domestic services in a private home; casual labor not in the course of the employer's trade or business; and services performed by an officer or member of a crew on a documented vessel. Also specifically excluded were services performed in the employ of: the United States Government, a state or any political subdivision of a state; and non-profit (including religious) organizations.

Coverage has been extended both on a mandatory and a voluntary basis. Mandatory coverage was extended to workers age 65 and over not otherwise excluded in 1939. In 1950 non-farm self-employed, regularly employed farm and domestic workers, and Federal civilian employees not under a retirement system were covered on a mandatory basis. In addition, the 1950 amendments provided elective coverage to State and local government employees not

under a retirement system and employees of nonprofit organizations.

The most significant extensions of coverage provided by the 1954 amendments were to self-employed farmers on a mandatory basis and, on an elective basis, State and local government employees (except firemen and policemen) under retirement systems and ministers. Coverage was extended to members of the uniformed services in 1956, and to ministers and members of religious orders who do not choose to be exempt on religious grounds. In 1983, coverage was extended on a compulsory basis to the following major groups: Federal employees hired after December 31, 1983; current and future Members of Congress; the President and Vice President; Federal judges; and all employees of nonprofit organizations.

Effective in 1983, Federal civilians are covered under the Hospital Insurance portion of the medicare program. Medicare coverage was also extended on a mandatory basis to State and local government employees hired after April 1, 1986. States are permitted to extend medicare coverage (without extending coverage under social security cash benefits) to such employees hired prior to April 1986 by voluntary agreement with the Secretary.

The following two tables detail the extension of coverage under the social security program in terms of both jobs and wages:

TABLE 1.—CIVILIAN WORKERS COVERED BY SOCIAL SECURITY SYSTEM, 1939–85

[In millions]

Year	Paid civilian employees [1]	OASDI coverage	Percent covered	OASDHI coverage	Percent covered
1939 [2]	43.6	24.0	55.1	24.0	55.1
1944 [2]	51.2	30.8	60.2	30.8	60.2
1949 [2]	56.7	34.3	60.5	34.3	60.5
1954 [2]	59.5	45.3	76.1	45.3	76.1
1955	62.8	51.8	82.5	51.8	82.5
1956	63.2	53.2	84.2	53.2	84.2
1957	63.1	53.7	85.1	53.7	85.1
1958	62.7	53.4	85 2	53.4	85.2
1959	64.4	55.4	86.0	55.4	86.0
1960	64.6	55.7	86.2	55.7	86.2
1961	65.3	56.1	85.9	56.1	85.9
1962	66.4	57.3	86.3	57.3	86.3
1963	67.6	58.5	86.5	58.5	86.5
1964	69.3	60.1	86.7	60.1	86.7
1965	71.6	62.7	87.6	62.7	87.6
1966	73.6	64.9	88.2	64.9	88.2
1967	74.4	65.7	88.3	65.7	88.3
1968	75.9	67.1	88.4	67.1	88.4
1969	78.0	68.6	87.9	68.6	87.9
1970	77.6	69.2	89.2	69.2	89.2
1971	79.3	69.8	88.0	69.8	88.0
1972	82.1	72.6	88.4	72.6	88.4
1973	84.9	75.6	89.0	75.6	89.0
1974	84.5	75.2	89.0	75.2	89.0
197[illegible]	84.8	75.7	89.3	75.7	89.3
1976	87.8	80.3	91.5	80.3	91.5
1977	92.0	82.1	89.2	82.1	89.2
1978	95.2	83.2	87.4	83.2	87.4
1979	97.5	87.6	89.8	87.6	89.8
1980	98.9	89.3	90.3	89.3	90.3
1981	99.0	89.5	90.4	89.5	90.4
1982	98.4	88.9	90.3	88.9	90.3
1983	102.2	92.7	90.7	95.2	93.2
1984	105.5	97.5	92.4	99.9	94.7
1985	107.7	99.7	92.6	102.0	94.7

[1] Includes paid employees and self-employed for all years.
[2] Monthly average for these years; all other years as of December.

Source: Social Security Statistical Supplement, 1982, and Office of Research, Statistics, and International Policy.

TABLE 2.—CIVILIAN WAGES COVERED BY OASDI SYSTEM, 1946–86 [1]

[Dollars in billions]

Year	Total earnings	Earnings in covered employment		Total covered earnings	Percent of total earnings covered	Taxable earnings	Percent of covered earnings
		Employed	Self-employed				
1946	$148.3	$79.3	.....	$79.3	53.5	$69.1	87.1
1947	158.6	92.4	.....	92.4	58.3	78.4	84.8
1948	176.0	102.3	.....	102.3	58.1	84.1	82.2
1949	170.6	100.0	.....	100.0	58.6	81.8	81.8
1950	186.1	109.8	.....	109.8	59.0	87.5	79.7
1951	215.6	132.5	$16.4	148.9	69.1	120.8	81.1
1952	230.1	143.5	16.4	159.9	69.5	128.6	80.5
1953	242.4	156.0	17.0	173.0	71.4	135.9	78.5
1954	240.7	155.1	16.8	171.9	71.4	133.5	77.7
1955	257.4	171.6	24.5	196.1	76.2	157.5	80.3
1956	276.0	188.5	28.3	216.8	78.6	170.7	78.8
1957	288.8	205.5	28.4	233.9	81.0	181.4	77.5
1958	292.8	208.0	28.5	236.5	80.8	180.7	76.4
1959	311.5	225.1	29.9	255.0	81.9	202.3	79.3
1960	324.9	236.0	29.2	265.2	81.6	207.0	78.1
1961	334.8	240.7	30.0	270.7	80.9	209.6	77.4
1962	355.9	257.7	31.3	289.0	81.2	219.1	75.8
1963	372.4	270.6	31.7	302.3	81.2	225.6	74.6
1964	398.2	290.9	33.6	324.5	81.5	236.4	72.8
1965	428.8	311.4	40.3	351.7	82.0	250.7	71.3
1966	469.8	346.7	44.0	390.7	83.2	312.5	80.0
1967	500.1	377.5	44.8	422.3	84.4	330.0	78.1
1968	547.4	413.6	46.4	460.0	84.0	375.8	81.7
1969	597.6	455.7	47.1	502.8	84.1	402.6	80.1
1970	631.7	483.6	48.0	531.6	85.2	415.6	78.2
1971	671.2	509.0	50.7	559.7	83.4	427.0	76.3
1972	737.0	563.3	54.6	617.9	83.8	484.1	78.3
1973	827.7	624.4	62.3	686.7	83.0	561.9	81.8
1974	891.0	681.6	65.2	746.7	83.8	636.8	85.3
1975	940.1	717.2	70.4	787.6	83.8	664.7	84.4
1976	1,037.2	797.2	76.8	874.7	84.3	737.7	84.3
1977	1,146.9	883.1	80.7	963.8	84.0	816.0	84.7
1978	1,295.8	1,002.2	93.7	1,095.9	84.6	917.8	83.7
1979	1,443.9	1,125.0	100.2	1,225.2	84.9	1,073.9	87.7
1980 [2]	1,552.6	1,230.5	97.7	1,328.2	85.5	1,175.8	88.5

TABLE 2.—CIVILIAN WAGES COVERED BY OASDI SYSTEM, 1946–86 [1]—Continued

[Dollars in billions]

Year	Total earnings	Earnings in covered employment		Tctal covered earnings	Percent of total earnings covered	Taxable earnings	Percent of covered earnings
		Employed	Self-employed				
1981 [2]	1,697.1	1,348.2	98.9	1,447.1	85.3	1,293.0	89.4
1982 [2]	1,761.7	1,423.3	98.6	1,521.9	86.4	1,363.9	89.6
1983 [3]	1,867.0	1,502.1	109.3	1,611.4	86.3	1,453.6	90.2
1984 [3]	2,073.8	1,664.9	117.2	1,782.1	85.9	1,607.8	90.2
1985 [3]	2,220.2	1,779.4	122.0	1,901.4	85.6	1,716.5	90.2
1986	NA	1,887.7	131.4	2,019.1	NA	1,831.1	90.7

[1] Sum of wages and salaries and proprietors' income with inventory valuation and capital consumption adjustments, as estimated by the Bureau of Economic Analysis in the National Income and Product Accounts.
[2] Revised.
[3] Preliminary.

Source: Social Security Statistical Supplement, 1983, and Office of Research, Statistics, and International Policy, SSA.

TABLE 3.—NUMBER OF WORKERS AND AVERAGE EARNINGS UNDER OASDI, 1937–1985

Year	Workers with taxable earnings [1]	With maximum earnings	Average earnings per worker	
			Total earnings [2]	Reported taxable [2]
1937	32,900	1,031	$979	$900
1938	31,820	933	896	833
1939	33,750	1,055	954	881
1940	35,390	1,196	1,009	932
1941	40,980	1,866	1,110	1,021
1942	46,360	3,569	1,255	1,142
1943	47,660	5,942	1,462	1,310
1944	46,300	7,163	1,583	1,392
1945	46,390	6,361	1,543	1,357
1946	48,840	6,477	1,624	1,415
1947	48,910	9,620	1,890	1,602
1948	49,020	12,061	2,087	1,716
1949	46,800	11,740	2,137	1,748
1950	48,280	13,936	2,274	1,812
1951	58,120	14,270	2,562	2,078
1952	59,580	16,606	2,684	2,159
1953	60,840	19,013	2,844	2,233
1954	59,610	18,866	2,884	2,240
1955	65,200	16,704	3,008	2,416

TABLE 3.—NUMBER OF WORKERS AND AVERAGE EARNINGS UNDER OASDI, 1937–1985—Continued

Year	Workers with taxable earnings [1]	With maximum earnings	Average earnings per worker	
			Total earnings [2]	Reported taxable [2]
1956	67,610	19,236	3,207	2,525
1957	70,590	21,095	3,314	2,569
1958	69,770	21,328	3,390	2,590
1959	71,700	19,112	3,556	2,822
1960	72,530	20,310	3,656	2,854
1961	72,820	21,265	3,717	2,879
1962	74,280	23,154	3,891	2,949
1963	75,540	24,570	4,002	2,986
1964	77,430	26,717	4,191	3,053
1965	80,680	29,136	4,359	3,108
1966	84,600	20,498	4,618	3,694
1967	87,040	22,948	4,852	3,791
1968	89,380	19,120	5,147	4,205
1969	92,060	22,577	5,462	4,373
1970	93,090	24,224	5,711	4,464
1971	93,340	26,404	5,996	4,574
1972	96,240	24,074	6,420	5,030
1973	99,830	20,250	6,879	5,628
1974	101,330	15,310	7,369	6,284
1975	100,200	15,070	7,860	6,633
1976	102,600	15,330	8,525	7,190
1977	105,800	15,700	9,075	7,718
1978	110,600	17,050	9,823	8,278
1979	112,700	11,236	10,805	9,465
1980	113,000	9,903	11,742	10,396
1981 [3]	113,300	8,613	12,763	11,410
1982 [3]	112,600	7,967	13,503	12,108
1983 [3]	113,400	7,064	14,183	12,813
1984 [4]	118,500	7,200	14,932	13,543
1985 [5]	121,600	7,200	15,465	14,040

[1] Relates to wage and salary workers for 1937–50. Beginning 1951, includes self-employment.

[2] Total wages, including estimated amounts above taxable limit, for 1937–50. Beginning 1951, also includes reported total net earnings of self-employed persons.

[3] Data subject to adjustment.

[4] Taxable earnings are preliminary estimates based on Social Security data; employment and total covered earnings are preliminary estimates based on data from Bureau of Labor Statistics and the National Income and Product Accounts.

[5] Preliminary estimates based on data from Bureau of Labor Statistics and the National Income and Product Accounts.

Source: Social Security Bulletin, Annual Statistical Supplement, 1986, Table 20.

Benefits

In order to be fully insured, under the 1939 Amendments, a worker needed 2 quarters of coverage for each year elapsed since 1936 and before the quarter in which the worker died or turned 65. The minimum required for insured status was 6 quarters and the maximum was 40. The Social Security Amendments of 1950 significantly increased the number of workers who were insured for monthly benefits by requiring two quarters of coverage, which could be earned at any time, for each calendar year after 1950 or age 21, subject to the same maximum and minimum. The 1961 Amendments changed the requirement for fully insured status to only one quarter of coverage for each calendar year after 1950 or age 21. To be insured for disability benefits, a worker must have earned 20 quarters of coverage in the 40 quarters preceding disability, in addition to being fully insured. The 1967 Amendments liberalized the insured status requirements for disability benefits for workers under age 31 which significantly increased the number of workers insured for disability beginning in 1969.

The 1935 Social Security Act provided monthly benefits to retired workers age 65 and over and a lump-sum death benefit to these workers. The monthly benefits were to first be paid beginning January 1, 1942. The 1939 Social Security Amendments provided benefits to dependents—wives aged 65 and over and children under age 16 (changed to 18 in 1946)—of retired workers, and to survivors—widows aged 65, mothers with eligible child in care, children under age 16, and dependent parents—of deceased workers. In addition the 1939 Amendments provided that these benefits first be paid in 1940.

Benefits that have been added in retirement and survivors programs since 1939 include: retired women aged 62–64 (1956); retired men aged 62–65 (1961); widows aged 60–64 (1956 and 1965); widowers aged 60 and over (1950, 1961, and 1972); and, disabled widows (1967, 1972, and 1977).

In 1956, benefits were extended to disabled workers aged 50–64 and to disabled children of retired, disabled, or deceased workers age 18 and over, if they became disabled prior to age 18. The Social Security Amendments of 1958 provided benefits to the dependents of disabled workers on the same basis as dependents of retired workers. Benefits for disabled workers under age 50 were provided in 1960.

Monthly cash benefits have been increased in order to offset the effects of inflation on an ad hoc basis 10 times prior to the first automatic cost-of-living adjustment which was incorporated in the act by the Social Security Amendments of 1972. Beginning with the 1975 increase, benefits have been increased automatically. Because inflation has been more than 3 percent in every year since 1975, there have been increases annually except during calendar year 1983.

The following tables provide historical background concerning changes in insured status, benefit types, average amounts and increases, and OASDHI benefits paid:

TABLE 4.—INSURED STATUS AND COVERED WORKERS, 1940–86

[In millions]

At beginning of year	Total number of living workers	Living workers insured for retirement and/or survivor benefits						Living workers insured in event of disability
		Total insured		Fully insured			Currently insured only	
		Number	Percent	Total	Permanently insured	Not permanently insured		
1940	40.7	22.9	56.3	22.9	0.6	22.3	(1)	.....
1941	44.8	24.9	55.6	24.2	1.1	23.1	0.7	.....
1942	50.9	27.5	54.0	25.8	1.4	24.4	1.7	.....
1943	58.5	31.2	53.3	28.1	1.8	26.3	3.1	.....
1944	65.4	34.9	53.4	29.9	2.3	27.6	5.0	.....
1945	69.6	38.6	55.5	31.9	2.8	29.1	6.7	.....
1946	72.4	40.3	55.7	33.4	3.4	30.0	6.9	.....
1947	75.2	41.8	55.6	35.4	8.6	26.8	6.4	.....
1948	77.4	43.4	56.1	37.3	11.6	25.7	6.1	.....
1949	79.4	44.8	56.4	38.9	13.2	25.7	5.9	.....
1950	80.8	45.7	56.6	40.1	14.9	25.2	5.6	.....
1951	82.7	59.8	72.3	59.8	21.0	38.8	(1)	.....
1952	88.0	62.8	71.4	62.8	22.9	39.9	(1)	.....
1953	90.8	68.2	75.1	68.2	25.6	42.7	(1)	.....
1954	93.1	71.0	76.3	71.0	27.7	43.4	(1)	.....
1955	94.7	70.6	74.6	70.2	29.9	40.4	.4	31.9
1956	98.6	71.4	72.4	70.5	32.5	38.0	.9	35.4
1957	101.4	74.3	73.3	74.0	36.1	38.0	.3	37.2
1958	103.8	77.0	74.2	76.1	38.3	37.9	.9	38.4
1959	105.3	78.9	74.9	76.5	40.3	36.2	2.4	43.4
1960	107.4	79.7	74.2	76.7	42.2	34.6	3.0	46.4
1961	109.4	85.4	78.1	84.4	47.6	36.8	1.0	48.5
1962	111.2	89.1	80.1	88.5	53.3	35.3	.5	50.5
1963	113.3	90.4	79.8	89.8	54.9	34.8	.6	51.5
1964	115.6	92.0	79.6	91.3	56.6	34.7	.8	52.3
1965	118.1	93.6	79.3	92.8	58.3	34.5	.9	53.3
1966	121.3	95.8	79.0	94.8	60.2	34.6	.9	55.0
1967	125.0	98.3	78.6	97.2	61.9	35.3	1.1	55.7
1968	127.9	101.2	79.1	99.9	63.3	36.6	1.3	56.9
1969	130.8	104.0	79.5	102.6	64.5	38.1	1.4	70.1
1970	133.5	107.2	80.3	105.7	66.3	39.4	1.5	72.4
1971	135.9	110.0	80.9	108.4	67.5	40.9	1.6	74.5
1972	138.2	112.8	81.6	111.1	68.7	42.4	1.7	76.1
1973	140.6	115.2	81.9	113.6	69.9	43.7	1.6	77.8
1974	142.9	118.6	83.0	117.0	71.4	45.6	1.6	80.4
1975	145.2	121.8	83.9	120.2	72.7	47.5	1.6	83.3

TABLE 4.—INSURED STATUS AND COVERED WORKERS, 1940–86—Continued

[In millions]

At beginning of year	Total number of living workers	Living workers insured for retirement and/or survivor benefits						Living workers insured in event of disability
		Total insured		Fully insured			Currently insured only	
		Number	Percent	Total	Permanently insured	Not permanently insured		
1976.....	148.3	124.9	84.2	123.3	74.4	48.9	1.6	85.3
1977.....	151.0	127.7	84.6	126.1	76.2	49.9	1.6	87.0
1978.....	153.7	130.8	85.1	129.3	78.3	51.0	1.5	89.3
1979.....	156.4	135.3	86.5	133.5	80.6	52.9	1.8	93.7
1980.....	159.0	139.0	87.4	137.3	82.9	54.4	1.7	98.0
1981 [2]...	161.5	142.1	88.0	140.4	85.3	55.1	1.7	100.5
1982 [2]...	163.4	144.6	88.5	142.9	88.0	54.9	1.7	102.4
1983 [2]...	165.6	146.4	88.4	144.8	90.8	54.0	1.6	103.6
1984 [2]...	167.6	147.8	88.2	146.3	93.8	52.5	1.5	106.6
1985 [2]...	169.5	150.0	88.5	148.6	96.8	51.8	1.4	109.2
1986 [2]...	171.4	152.1	88.7	150.8	100.0	50.8	1.3	111.3

[1] Persons currently insured before July 1940, or currently insured after August 1950 and before July 1954, are also fully insured.

[2] Preliminary.

Source: Social Security Bulletin, Annual Statistical Supplement, 1986, Table 30, and Office of Research, Statistics, and International Policy.

Note: Total columns may not sum precisely due to rounding.

TABLE 5.—PERCENT OF INSURED WORKERS AGED 62 AND OVER IN CURRENT PAYMENT STATUS, 1941–86 [1]

	Aged 62–64			Aged 65 and over		
	Male	Female	Total	Male	Female	Total
1941				20	25	20
1945				29	40	30
1950				59	61	59
1951				57	55	56
1952				64	70	65
1953				60	64	61
1954				66	71	67
1955				70	75	71
1956				75	80	76
1960		44	44	84	87	85
1965	32	47	38	89	89	89
1966	32	46	37	90	89	89
1967	33	46	38	90	91	91
1968	33	46	38	90	91	90
1969	34	46	39	90	91	90
1970	34	46	39	90	90	90
1971	36	47	41	90	90	90
1972	39	49	43	91	89	90
1973	41	52	46	92	90	91
1974	44	54	48	94	91	93
1975	46	56	50	93	93	93
1976	49	57	53	94	93	93
1977	49	57	53	95	93	94
1978	52	59	55	95	93	94
1979	51	59	54	95	93	94
1980	52	59	55	95	93	94
1981	53	59	55	95	93	94
1982	54	59	56	95	93	94
1983	56	59	57	95	93	94
1984	56	58	57	95	93	94
1985	57	58	57	95	92	94
1986	57	58	58	95	92	93

[1] Includes both OASI and DI worker benefits.

Source: Social Security Bulletin, Annual Statistical Supplement, 1986, Table 33, and Office of Research, Statistics, and International Policy.

TABLE 6.—NUMBER OF OASDI BENEFIT RECIPIENTS WITH BENEFITS IN CURRENT-PAYMENT STATUS, BY BENEFICIARY TYPE, DECEMBER 1940–85

[In thousands]

At end of selected year	Retired workers and auxiliaries								Disabled workers and auxiliaries			
	Total	Retired workers	Wives and husbands	Children	Widowed mothers and fathers	Widows and widowers	Parents	Persons with special age–72 benefits	Total	Disabled workers	Wives and husbands	Children
1940	222	112	30	55	20	4	1	.....	.....	.....	.....	.....
1945	1,288	518	159	390	121	94	6	.....	.....	.....	.....	.....
1950	3,477	1,771	508	700	169	314	15	.....	.....	.....	.....	.....
1955	7,961	4,474	1,192	1,276	292	701	25	.....	.....	.....	.....	.....
1960	14,157	8,061	2,269	1,845	401	1,544	36	.....	687	455	77	155
1961	15,468	8,925	2,392	1,989	428	1,697	37	.....	1,027	618	118	291
1962	16,778	9,739	2,531	2,160	452	1,859	37	.....	1,275	741	147	387
1963	17,583	10,263	2,581	2,230	462	2,011	37	.....	1,452	827	168	457
1964	18,236	10,669	2,604	2,298	471	2,159	36	.....	1,563	894	179	490
1965	19,128	11,101	2,614	2,535	472	2,371	35	.....	1,739	988	193	558
1966	20,797	11,658	2,640	2,739	488	2,602	35	634	1,970	1,097	220	654
1967	21,565	12,019	2,645	2,873	496	2,770	33	729	2,140	1,193	235	713
1968	22,225	12,421	2,645	3,009	505	2,938	32	676	2,335	1,295	253	787
1969	22,827	12,822	2,644	3,123	512	3,092	30	603	2,488	1,394	264	829
1970	23,564	13,349	2,668	3,234	523	3,227	29	534	2,665	1,493	283	889
1971	24,362	13,927	2,698	3,336	535	3,366	27	472	2,930	1,648	312	971
1972	25,205	14,555	2,735	3,427	541	3,510	26	410	3,271	1,833	350	1,088
1973	26,310	15,365	2,808	3,526	572	3,656	25	358	3,559	2,017	381	1,161

1974	26,941	15,959	2,826	3,513	574	3,770	23	278	3,911	2,237	412	1,263
1975	27,732	16,588	2,867	3,562	582	3,889	21	223	4,352	2,489	453	1,411
1976	28,397	17,164	2,896	3,556	579	3,994	20	188	4,624	2,670	474	1,480
1977	29,217	17,821	2,961	3,552	583	4,119	18	159	4,860	2,837	495	1,525
1978	29,718	18,358	2,980	3,441	576	4,212	17	134	4,868	2,880	492	1,497
1979	30,347	18,970	2,991	3,363	574	4,321	16	112	4,777	2,871	475	1,431
1980	30,907	19,562	3,016	3,249	562	4,411	15	93	4,678	2,859	462	1,358
1981[1]	31,550	20,195	3,031	3,178	548	4,508	14	76	4,456	2,777	428	1,252
1982	31,866	20,763	3,039	2,879	515	4,595	12	63	3,973	2,604	366	1,004
1983	32,272	21,419	3,039	2,657	400	4,694	11	51	3,813	2,569	308	936
1984	32,657	21,906	3,051	2,487	382	4,779	10	40	3,822	2,597	304	921
1985[1]	33,151	22,432	3,069	2,374	372	4,863	10	32	3,907	2,656	306	945

[1] Based on unedited monthly data.

Source: Social Security Bulletin, Annual Statistical Supplement, 1986, Tables 77, 101, and 103.

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TABLE 7.—OASDI BENEFICIARY FAMILIES WITH BENEFITS IN CURRENT-PAY STATUS, BY SELECTED FAMILY GROUPS, SELECTED YEARS, 1944–85—Continued

[In thousands]

Year [1]	Retired-worker families				Survivor families				Disabled-worker families					
	Worker only					Widowed mother and—			Worker only			Worker, wife, and—		
	Total	Men	Women	Worker and wife	Aged widow only	1 child	2 children	3 or more children	Total	Men	Women	1 child	2 or more children	Worker and spouse
1944	315	253	62	135	69	67	36	20	.....					
1950	1,240	939	301	498	314	82	53	33	.....					
1955	3,266	2,054	1,212	1,124	700	126	86	80	.....					
1960	5,742	2,922	2,820	2,122	1,527	172	113	114	357	261	96	22	32	22
1965	8,386	4,137	4,249	2,400	2,332	182	135	153	714	481	232	54	109	30
1970	10,533	4,904	5,629	2,457	3,080	183	155	182	1,054	680	374	77	164	43
1975	13,520	6,134	7,385	2,618	3,606	221	182	176	1,750	1,080	671	137	250	66
1976	14,056	6,351	7,705	2,647	3,706	219	186	171	1,883	1,152	730	144	257	72
1977	14,597	6,564	8,033	2,681	3,805	221	190	167	2,000	1,222	782	152	263	80
1978	15,148	6,791	8,357	2,697	3,894	228	186	158	2,043	1,245	798	155	256	81
1979	15,748	7,044	8,704	2,710	3,964	234	187	147	2,050	1,248	802	154	242	80
1980	16,314	7,286	9,028	2,736	4,033	239	184	134	2,061	1,257	804	154	228	80
1982	17,519	7,852	9,667	2,784	4,191	236	165	106	1,969	1,208	760	124	163	78
1983	18,162	8,166	9,996	2,830	4,271	161	141	92	1,961	1,215	746	85	143	80
1984	18,613	8,362	10,251	2,839	4,520	159	135	79	1,993	1,241	752	83	140	76
1985	19,132	8,601	10,531	2,861	4,606	158	131	74	2,039	1,267	772	84	140	76

[1] Data for 1981 are not available.

Source: Social Security Bulletin, Annual Statistical Supplement, 1986, Table 108.

TABLE 8.—OASDI AVERAGE MONTHLY BENEFITS IN CURRENT-PAYMENT STATUS, BY SELECTED FAMILY GROUPS, SELECTED YEARS, 1944–85

[Average monthly amount]

At end of year [1]	Retired-worker families				Survivor families				Disabled-worker families					
	Worker only				Widowed mother and—				Worker only			Worker, wife, and—		
	Total	Men	Women	Worker and wife	Aged widow only	1 child	2 children	3 or more children	Total	Men	Women	1 child	2 or more children	Worker and spouse
1944	23.00	24.10	19.30	37.90	20.20	34.40	47.30	50.10						
1950	42.20	44.60	34.80	71.70	36.50	76.90	93.90	92.40						
1955	59.10	64.60	49.80	103.50	48.70	106.80	135.40	133.20						
1960	69.90	79.90	59.60	123.90	57.70	131.70	188.00	181.70	87.90	91.90	76.90	184.70	192.20	135.50
1965	80.10	90.50	70.00	141.50	73.90	153.00	219.80	218.10	95.40	100.70	85.00	201.00	216.30	145.90
1970	114.20	128.70	101.60	198.90	102.40	213.00	291.10	289.90	128.10	136.30	113.10	264.10	273.20	199.20
1975	201.60	225.50	181.80	343.90	195.90	367.20	468.60	461.80	218.90	240.00	185.00	441.00	454.00	344.00
1976	218.80	245.10	197.10	373.10	211.00	399.80	503.40	499.70	327.40	261.40	199.40	482.20	495.70	377.00
1977	236.80	265.90	213.10	404.40	226.50	436.80	546.60	538.60	265.50	283.80	213.80	525.80	538.10	407.50
1978	256.60	288.90	230.30	437.50	243.60	474.00	591.90	582.80	277.90	308.50	230.20	568.00	585.90	443.00
1979	287.00	324.00	257.10	488.60	270.30	532.90	655.00	646.70	308.90	343.60	254.80	632.70	655.70	497.10
1980	333.00	377.10	297.40	566.60	311.60	612.80	759.20	740.50	355.40	396.20	291.70	727.00	746.10	573.00
1982	408.90	465.50	362.90	702.50	379.00	735.60	885.50	867.90	424.20	474.20	344.70	847.40	858.20	690.70
1983	429.70	490.00	380.40	742.90	400.60	774.80	923.00	884.50	439.40	490.40	355.40	867.90	881.80	716.20
1984	448.20	511.60	396.40	781.20	416.30	805.30	948.30	906.60	454.00	507.60	365.70	881.50	885.50	740.40
1985	465.80	531.80	412.00	813.90	434.30	829.60	981.50	924.90	466.90	523.10	374.60	898.10	895.20	765.00

[1] Data for 1981 not available.

Source: Social Security Bulletin, Annual Statistical Supplement, 1986, Table 108, and Office of Research, Statistics, and International Policy.

TABLE 9.—HISTORICAL COMPARISON OF AVERAGE WAGE INCREASES TO BENEFIT INCREASES AND CHANGES IN CPI, 1965–86

[In percent]

	Increases in wages [1]		Increase in CPI [2]		Increase in benefits [3]	
	Over prior year	Cumulative from each year to 1985	Over prior year	Cumulative from each year to 1985	Over prior year	Cumulative from each year to 1985
1965	1.8	275.1	1.7	241.8	7.0	313.1
1966	6.0	253.9	2.9	232.2	.....	313.1
1967	5.6	235.1	2.9	222.8	.....	313.1
1968	6.9	213.5	4.2	209.8	13.0	266.5
1969	5.8	196.3	5.4	193.9	.....	266.5
1970	5.0	182.2	5.9	177.5	15.0	218.7
1971	5.0	168.8	4.3	166.1	10.0	189.7
1972	9.8	144.8	3.3	157.6	20.0	141.4
1973	6.3	130.3	6.2	142.6	.....	141.4
1974	5.9	117.5	11.0	118.6	11.0	117.5
1975	7.5	102.3	9.1	100.4	8.0	101.4
1976	6.9	89.2	5.7	89.6	6.4	89.3
1977	6.0	78.5	6.5	78.0	5.9	78.8
1978	7.9	65.4	7.6	65.4	6.5	67.9
1979	8.7	52.2	11.4	48.5	9.9	52.8
1980	9.0	39.6	13.5	30.8	14.3	33.7
1981	10.1	26.8	10.2	18.7	11.2	20.2
1982	5.5	20.2	6.0	12.0	7.4	11.9
1983	4.9	14.6	3.0	8.7	[4] 3.5	8.1
1984	5.9	8.2	3.4	5.1	3.5	4.4
1985	4.3	3.7	3.5	1.5	3.1	1.3
1986	[5] 3.7	.....	1.5	.....	[6] 1.3	.....

[1] Average annual earnings series used to index earnings records.

[2] Increase in annual average CPI–W.

[3] Legislated benefit increases through 1975 and increases based on CPI thereafter.

[4] As a result of the Social Security Amendments of 1983, COLA's are provided on a calendar year basis, with the benefit increase payable in January rather than July. The July 1983 COLA was delayed to January 1984. This delay and a change in the computation period led to 6 months of 1983 not being accounted for in any COLA increase.

[5] Preliminary.

[6] Effective December 1986, payable January 1987.

Source: Office of Research and Statistics.

TABLE 10.—OASDHI EXPENDITURES AS PERCENT OF TOTAL SOCIAL WELFARE EXPENDITURE [1]

[Dollars in millions]

	Total expenditure [2]	OASDHI	Percent
1929	$3,921	.....	
1940	8,795	$40.4	0.5
1950	23,508	784.1	3.3
1955	32,640	4,436.3	13.6
1960	52,293	11,032.3	21.1
1965	77,175	16,997.5	22.0
1970	145,856	36,835.4	25.3
1975	290,080	78,429.9	27.0
1979	430,280	131,719.4	30.6
1980	492,796	152,110.4	30.9
1981	550,324	180,425.0	32.8
1982	594,785	204,567.8	34.4
1983	642,077	224,709.2	35.0
1984	671,972	239,395.0	35.6

[1] Expenditures include those from Federal, State and local revenues (general and special) and trust funds and other expenditures under public law.

[2] Includes expenditures for public education, health and medical programs, veteran's programs, public aid (including SSI and food stamps) as well as social insurance programs other than social security.

Source: Social Security Bulletin, Annual Statistical Supplement, 1986, Table 2.

TABLE 11.—TOTAL OASDI BENEFITS PAID, AND AS A PERCENT OF PERSONAL INCOME

[In millions]

Year	Total benefits	Cash benefits		Personal income[1]	Total (cash) benefits as a percent of personal income
		OASI	DI		
1937	$1	$1		$73,400	(2)
1938	10	10		67,600	(2)
1939	14	14		72,100	(2)
1940	35	35		77,600	(2)
1941	88	88		95,200	0.1
1942	131	131		122,400	.1
1943	166	166		150,700	.1
1944	209	207		164,500	.1
1945	274	274		170,000	.2
1946	378	378		177,600	.2
1947	466	466		190,200	.2
1948	556	556		209,200	.3
1949	667	667		206,400	.3
1950	961	961		228,100	.4
1951	1,885	1,885		256,500	.7
1952	2,194	2,194		273,800	.8
1953	3,006	3,006		290,500	1.0
1954	3,670	3,670		293,000	1.3
1955	4,968	4,968		314,200	1.6
1956	5,715	5,715		337,200	1.7
1957	7,404	7,347	$57	356,300	2.1
1958	8,576	8,327	249	367,100	2.3
1959	10,298	9,846	457	390,700	2.6
1960	11,245	10,677	568	409,400	2.7
1961	12,749	11,862	887	426,000	3.0
1962	14,461	13,356	1,105	453,200	3.2
1963	15,427	14,217	1,210	476,300	3.2
1964	16,223	14,914	1,309	510,200	3.2
1965	18,311	16,737	1,573	552,000	3.3
1966	20,048	18,267	1,781	600,800	3.3
1967	21,406	19,468	1,939	644,500	3.3
1968	24,938	22,642	2,294	707,200	3.5
1969	26,751	24,209	2,542	772,900	3.5
1970	31,863	28,796	3,067	831,800	3.8
1971	37,171	33,413	3,758	894,000	4.2
1972	41,595	37,122	4,473	981,600	4.2
1973	51,459	45,741	5,718	1,101,700	4.7
1974	58,521	51,618	6,903	1,210,100	4.8
1975	66,923	58,509	8,414	1,313,400	5.1
1976	75,665	65,699	9,966	1,451,400	5.2

TABLE 11.—TOTAL OASDI BENEFITS PAID, AND AS A PERCENT OF PERSONAL INCOME—Continued

[In millions]

Year	Total benefits	Cash benefits		Personal income[1]	Total (cash) benefits as a percent of personal income
		OASI	DI		
1977	84,576	73,113	11,463	1,607,500	5.3
1978	92,865	80,352	12,513	1,812,400	5.1
1979	104,264	90,556	13,708	2,034,000	5.1
1980	120,511	105,074	15,437	2,258,500	5.3
1981	140,994	123,795	17,199	2,520,900	5.6
1982	156,138	138,800	17,338	2,670,800	5.8
1983	167,032	149,502	17,530	2,836,400	5.9
1984	175,738	157,841	17,897	3,111,900	5.6
1985	186,198	167,362	18,836	[3] 3,314,500	5.6
1986	[4] 197,228	[4] 177,468	[4] 19,760	.....	.....

[1] Data from "Survey of Current Business". Revised historical data (1937–84) February 1986 Table 6; 1985 data from October 1986, table 2.1.

[2] Less than 0.05 percent.

[3] Rounded to nearest 100 million.

[4] Projected.

NA = Not available.

Source: Social Security Bulletin Annual Statistical Supplement, 1986, Table 17.

TABLE 12.—ESTIMATED COST OF OASDI AND HI SYSTEMS AS PERCENT OF GNP UNDER ALTERNATIVE II–B, 1986–2060

[In percent]

Calendar year	OASDI	HI	OASDI–HI
1985	4.88	1.19	6.07
1990	4.75	1.35	6.10
1995	4.73	1.56	6.29
2000	4.42	1.70	6.13
2005	4.27	1.82	6.09
2010	4.46	1.94	6.41
2015	4.94	2.13	7.06
2020	5.54	2.37	7.91
2025	6.05	2.65	8.70
2030	6.31	2.89	9.19
2035	6.31	3.01	9.32
2040	6.16	3.05	9.21
2045	6.03	3.03	9.06
2050	5.96	2.99	8.95
2055	5.90	2.96	8.86
2060	5.82	2.93	8.75
Averages:			
1986–2010	4.55	1.61	6.16
2011–2035	5.69	2.52	8.21
2036–2060	6.01	3.00	9.01
1986–2060	5.42	2.38	7.80

Source: 1986 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table F1.

TABLE 13.—COST RATES FOR THE OASI AND DI TRUST FUNDS AS A PERCENT OF TAXABLE PAYROLL, 1940–85

[In percent]

Calendar year	OAI [1]	SI [1]	OASI	DI	OASDI
1940	0.10	0.09	0.19	.....	0.19
1941	.16	.11	.27	.....	.27
1942	.17	.13	.30	.....	.30
1943	.18	.14	.32	.....	.32
1944	.20	.16	.36	.....	.36
1945	.26	.22	.48	.....	.48
1946	.36	.25	.61	.....	.61
1947	.40	.25	.65	.....	.65
1948	.46	.26	.72	.....	.72
1949	.58	.31	.89	.....	.89

TABLE 13.—COST RATES FOR THE OASI AND DI TRUST FUNDS AS A PERCENT OF TAXABLE PAYROLL, 1940–85—Continued

[In percent]

Calendar year	OAI [1]	SI [1]	OASI	DI	OASDI
1950	.79	.38	1.17	.....	1.17
1951	1.18	.50	1.68	.....	1.68
1952	1.28	.55	1.83	.....	1.83
1953	1.71	.64	2.35	.....	2.35
1954	2.12	.77	2.89	.....	2.89
1955	2.52	.82	3.34	.....	3.34
1956	2.72	.84	3.56	.....	3.56
1957	3.32	.97	4.29	.03	4.32
1958	3.85	1.10	4.95	.15	5.10
1959	4.07	1.20	5.27	.24	5.51
1960	4.29	1.30	5.59	.30	5.89
1961	4.67	1.46	6.13	.47	6.60
1962	5.02	1.58	6.60	.56	7.16
1963	5.19	1.65	6.84	.59	7.43
1964	5.17	1.66	6.83	.62	7.45
1965	5.42	1.81	7.23	.70	7.93
1966	4.58	1.66	6.24	.64	6.88
1967	4.63	1.64	6.27	.65	6.92
1968	4.64	1.71	6.35	.67	7.03
1969	4.66	1.72	6.38	.70	7.08
1970	5.36	1.96	7.32	.81	8.12
1971	6.07	2.20	8.27	.97	9.23
1972	5.98	2.15	8.13	1.01	9.14
1973	6.21	2.38	8.59	1.09	9.69
1974	6.20	2.35	8.55	1.16	9.70
1975	6.77	2.52	9.29	1.36	10.65
1976	6.89	2.53	9.42	1.44	10.86
1977	6.93	2.53	9.46	1.50	10.97
1978	6.85	2.44	9.29	1.45	10.74
1979	6.57	2.31	8.88	1.35	10.23
1980	6.95	2.41	9.36	1.38	10.74
1981 [2]	7.45	2.52	9.97	1.39	11.36
1982 [2]	8.02	2.58	10.60	1.34	11.94
1983 [2]	7.85	2.43	10.28	1.22	11.50
1984 [2]	7.74	2.36	10.10	1.16	11.26
1985 [3]	7.72	2.33	10.05	1.15	11.20

[1] These estimates are based on the assumption that total OASI expenditures are distributed between OAI and SI in the same proportions as benefit payments.

[2] Preliminary.

[3] Estimates based on the Alternative II–B assumptions of the 1986 Trustees Report.

Note: All numbers in this table are presented as percentages of taxable payroll and are based on data published in 1986 and earlier Trustees Reports.

Source: Office of the Actuary, Social Security Administration.

TABLE 14.—ESTIMATED COST RATES FOR THE OASDI TRUST FUND AS A PERCENT OF TAXABLE PAYROLL, 1986–2060

[In percent]

Calendar year	OAI	SI	OASI	DI	OASDI
1986	7.68	2.30	9.98	1.13	11.11
1990	7.74	2.22	9.96	1.04	11.00
1995	7.70	2.20	9.90	1.03	10.92
2000	7.16	1.97	9.13	1.12	10.25
2005	6.84	1.80	8.64	1.31	9.95
2010	7.24	1.72	8.96	1.55	10.51
2015	8.35	1.73	10.08	1.69	11.77
2020	9.83	1.79	11.62	1.77	13.40
2025	11.11	1.85	12.96	1.88	14.84
2030	11.93	1.92	13.85	1.84	15.70
2035	12.19	1.96	14.15	1.78	15.93
2040	12.01	1.98	14.00	1.77	15.77
2045	11.83	1.99	13.82	1.83	15.65
2050	11.85	1.98	13.83	1.86	15.69
2055	11.96	1.97	13.92	1.85	15.77
2060	12.01	1.94	13.95	1.82	15.77
25-year averages:					
1986–2010	7.35	2.02	9.37	1.17	10.54
2011–2035	10.30	1.83	12.13	1.78	13.91
2036–2060	11.94	1.98	13.92	1.82	15.74
75-year average:					
1986–2060	9.87	1.94	11.81	1.59	13.40

Note: All estimates in this table are presented as percentages of taxable payroll and are based on the Alternative II–B assumptions of the 1986 Trustees Report.

Source: Office of the Actuary.

TABLE 15.—PAST AND FUTURE EARNINGS LEVELS, PRIMARY INSURANCE AMOUNTS IN ACTUAL AND CONSTANT DOLLARS, AND REPLACEMENT RATES, UNDER PRESENT LAW, 1953–2040 [1]

Calendar year	Actual earnings in previous year			Sum of monthly PIA's in year of entitlement [2]						Replacement rates [3] (in percent)		
				Actual dollars			1986 constant dollars					
	Low earner	Average earner	Maximum earner [4]	Low earner	Average earner	Maximum earner [4]	Low earner	Average earner	Maximum earner [4]	Low earner	Average earner	Maximum earner [4]
1953 [5]	1,560	2,973	3,600	714	912	1,020	2,926	3,738	4,180	45.8	30.7	28.3
1955 [5]	1,560	3,156	3,600	774	1,091	1,182	3,168	4,465	4,838	49.6	34.6	32.8
1960 [5]	2,080	3,856	4,800	936	1,284	1,428	3,468	4,758	5,291	45.0	33.3	29.8
1965 [5]	2,600	4,576	4,800	1,040	1,439	1,580	3,619	5,004	5,497	40.0	31.4	32.9
1970 [5]	3,328	5,894	7,800	1,421	2,021	2,278	4,015	5,711	6,437	42.7	34.3	29.2
1975 [5]	3,883	8,031	13,200	2,309	3,400	3,973	4,708	6,933	8,101	59.5	42.3	30.1
1980 [5]	6,032	11,479	22,900	3,859	5,862	7,437	5,135	7,801	9,896	64.0	51.1	32.5
1985	6,968	16,135	37,800	[6] 4,445	6,598	8,629	4,587	6,809	8,904	[6] 63.8	40.9	22.8
1988	7,352	18,456	43,800	4,975	7,567	10,128	4,566	6,945	9,296	67.7	41.0	23.1
1990	8,254	20,721	48,000	5,750	8,771	11,861	4,806	7,331	9,914	69.7	42.3	24.7
2000	14,186	35,613	82,800	9,431	14,706	21,161	5,320	8,295	11,937	66.5	41.3	25.6
2010	24,231	60,832	141,600	15,328	25,124	38,505	5,841	9,574	14,673	63.3	41.3	27.2
2020	41,390	103,910	241,800	25,149	42,919	67,211	6,474	11,049	17,303	60.8	41.3	27.8
2030	70,700	177,493	412,800	41,661	73,312	114,775	7,246	12,750	19,961	58.9	41.3	27.8
2040	120,766	303,183	705,300	71,174	125,238	195,887	8,362	14,714	23,015	58.9	41.3	27.8

[1] For workers becoming entitled for January at age 65 with steady career earnings. [2] Sum rounded to nearest dollars.
[3] Sum of monthly PIA's in year of entitlement expressed as percent of earnings in year prior to entitlement. [4] Earnings equal to the social security taxable earnings base.
[5] PIA's and replacement rates for these workers are based on the pre-1977 benefit formula. [6] Based on special minimum PIA computation.

Source: Office of the Actuary, Social Security Administration.

Note: For those illustrative cases retiring at age 65 in 2010 and later, the "normal retirement age" is greater than 65 and, therefore, an actuarial-reduction factor will apply. Thus, showing the PIA's for such persons is somewhat inappropriate.

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The payroll tax is imposed on covered earnings up to a specific dollar amount. Workers who earn more than the maximum taxable earnings base do not pay FICA (Federal Insurance Contributions Act) or SECA (Self-Employed Contributions Act) tax on their earnings above the base.

The earnings base has increased numerous times from 1937 through 1986. A majority of these increases have been provided through specific legislative amendments. However, the earnings base is currently automatically adjusted annually according to the increase in average wages in the economy, but only if the cost-of-living benefit increase was established for the previous December.

The tax rates have also been changed many times since 1937. Under the original act, the OASI tax rate was scheduled to gradually increase from 1 percent in 1937 to 3 percent in 1949. These increases were delayed several times during the 1940's and the tax rate did not increase to 1.5 percent until 1950. The current 1986 OASI tax rate is 5.2 percent. The tax for the disability insurance program was 0.25 percent in 1957 and is 0.50 percent in 1986. The hospital insurance (medicare part A) rate was 0.35 percent in 1966 and is currently 1.45 percent. (For 1984 only, employees were allowed a credit of 0.3 percent of their taxable wages against their FICA tax liability, reducing the effective tax rate to 6.7 percent.)

Beginning in 1984, the OASDHI rates for self-employed persons is equal to the combined employer-employee OASDHI rate. For 1984, self-employed persons were allowed a credit (comparable to the credit allowed employers against the FICA tax) against SECA tax equal to 2.7 percent of net self-employment income. For 1985, the amount of the credit was 2.3 percent. For 1986 through 1989, the credit will be 2.0 percent. The SECA tax credit may directly be taken into account in computing SECA liability for a taxable year and estimated tax payments for that year.

Effective in 1990 and thereafter, the credit would terminate and be replaced with a system designed to achieve parity between employees and the self-employed. Under this system:

1. The base of the self-employment tax will be adjusted downward to reflect the fact that employees do not pay FICA tax on the value of the employer's FICA tax.
2. A deduction will be allowed for income tax purposes, for half of SECA liability, to allow for the fact that employees do not pay income tax on the value of the employer's FICA tax.

The following four tables detail the annual taxable earnings base, the three individual and combined tax rates and the annual maximum contribution for both employees, employers, and self-employed persons:

TABLE 16.—ANNUAL MAXIMUM TAXABLE EARNINGS AND CONTRIBUTION RATE: EMPLOYERS AND EMPLOYEES, 1937–2000 AND THEREAFTER

Beginning—	Annual maximum taxable earnings	Contribution rate			
		Total	OASI	DI	HI
1937	$3,000	1	1	.....	.....
1950	3,000	1.5	1.5	.....	.....
1951	3,600	1.5	1.5	.....	.....
1954	3,600	2	2	.....	.....
1955	4,200	2	2	.....	.....
1957	4,200	2.25	2	0.25	.....
1959	4,800	2.5	2.25	.25	.....
1960	4,800	3	2.75	.25	.....
1962	4,800	3.125	2.875	.25	.....
1963	4,800	3.625	3.375	.25	.....
1966	6,600	4.2	3.5	.35	0.35
1967	6,600	4.4	3.55	.35	.5
1968	7,800	4.4	3.325	.475	.6
1969	7,800	4.8	3.725	.475	.6
1970	7,800	4.8	3.65	.55	.6
1971	7,800	5.2	4.05	.55	.6
1972	9,000	5.2	4.05	.55	.6
1973	10,800	5.85	4.3	.55	1.0
1974	13,200	5.85	4.375	.575	.9
1975	14,100	5.85	4.375	.575	.9
1976	15,300	5.85	4.375	.575	.9
1977	16,500	5.85	4.375	.575	.9
1978	17,700	6.05	4.275	.775	1.00
1979	22,900	6.13	4.33	.75	1.05
1980	25,900	6.13	4.52	.56	1.05
1981	29,700	6.65	4.70	.65	1.3
1982	32,400	6.7	4.575	.825	1.3
1983	35,700	6.7	4.775	.625	1.3
1984 [1]	37,800	7.0	5.2	.5	1.3
1985	39,600	7.05	5.2	.5	1.35
1986	42,000	7.15	5.2	.5	1.45
1986–1987	43,800	7.15	5.2	.5	1.45
1988–1989	([2])	7.51	5.53	.53	1.45
1990–1999	([2])	7.65	5.6	.60	1.45
2000 and thereafter	([2])	7.65	5.49	.71	1.45

[1] Tax credits apply for 1984.
[2] Subject to automatic increase.

Source: Social Security Bulletin, Annual Statistical Supplement, 1986, Table D.

TABLE 17.—MAXIMUM ANNUAL CONTRIBUTION: EMPLOYEE, 1937–87

Beginning—	Total	OASI	DI	HI
1937	$30.00	$30.00	.....	.....
1950	45.00	45.00	.....	.....
1951	54.00	54.00	.....	.....
1954	72.00	72.00	.....	.....
1955	84.00	84.00	.....	.....
1957	94.50	84.00	$10.50	.....
1959	120.00	108.00	12.00	.....
1960	144.00	132.00	12.00	.....
1962	150.00	138.00	12.00	.....
1963	174.00	162.00	12.00	.....
1966	277.20	231.00	23.10	$23.10
1967	290.40	234.30	23.10	33.00
1968	343.20	259.35	37.05	46.80
1969	374.40	290.55	37.05	46.80
1970	374.40	284.70	42.90	46.80
1971	405.60	315.90	42.90	46.80
1972	468.00	364.50	49.50	54.00
1973	631.80	464.40	59.40	108.00
1974	772.20	577.50	75.90	118.80
1975	824.85	618.88	81.08	126.90
1976	895.05	669.38	87.98	137.70
1977	965.25	721.88	94.88	148.50
1978	1,070.85	756.68	137.18	177.00
1979	1,403.77	991.57	171.75	240.45
1980	1,587.67	1,170.68	145.04	271.95
1981	1,975.05	1,395.90	193.05	386.10
1982	2,170.80	1,482.30	267.30	421.20
1983	2,391.90	1,704.68	223.12	464.10
1984 [1]	2,646.00	1,965.60	189.00	491.40
1985 [1]	2,791.80	2,059.20	198.00	534.60
1986 [1]	3,003.00	2,184.00	210.00	609.00
1987 [1]	3,131.70	2,277.60	219.00	635.10
Total cumulative employee contributions 1937 to 1987 [1]	30,900.89	23,019.52	2,713.26	5,168.10

[1] Includes tax credit.

Source: Social Security Bulletin, Annual Statistical Supplement, 1986, Table F.

TABLE 18.—ANNUAL MAXIMUM TAXABLE EARNINGS AND CONTRIBUTION RATE: SELF-EMPLOYED, 1937–2000 AND THEREAFTER

Beginning—	Annual maximum taxable earnings	Contribution rate			
		Total	OASI	DI	HI
1937	$3,000	.....	.....	.....	.....
1950	3,000	.....	.....	.....	.....
1951	3,600	2.25	2.25	.....	.....
1954	3,600	3	3	.....	.....
1955	4,200	3	3	.....	.....
1957	4,200	3.375	3	0.375	.....
1959	4,800	3.75	3.375	.375	.....
1960	4,800	4.5	4.125	.375	.....
1962	4,800	4.7	4.325	.375	.....
1963	4,800	5.4	5.025	.375	.....
1966	6,600	6.15	5.275	.525	0.35
1967	6,600	6.4	5.375	.525	.5
1968	7,800	6.4	5.0875	.7125	.6
1969	7,800	6.9	5.5875	.7125	.6
1970	7,800	6.9	5.475	.825	.6
1971	7,800	7.5	6.075	.825	.6
1972	9,000	7.5	6.075	.825	.6
1973	10,800	8	6.205	.795	1.0
1974	13,200	7.9	6.185	.815	.9
1975	14,100	7.9	6.185	.815	.9
1976	15,300	7.9	6.185	.815	.9
1977	16,500	7.9	6.185	.815	.9
1978	17,700	8.10	6.01	1.09	1.00
1979	22,900	8.10	6.01	1.04	1.05
1980	25,900	8.10	6.2725	.7775	1.05
1981	29,700	9.30	7.025	.975	1.30
1982	32,400	9.35	6.8125	1.2375	1.30
1983	35,700	9.35	7.1125	.9375	1.30
1984 [1]	37,800	14.0	10.4	1.0	2.6
1985 [1]	39,600	14.1	10.4	1.0	2.7
1986 [1]	42,000	14.3	10.4	1.0	2.9
1987 [1]	43,800	14.3	10.4	1.0	2.9
1988–1989 [1]	([2])	15.02	11.06	1.06	2.9
1990–1999	([2])	15.3	11.2	1.2	2.9
2000 and thereafter	([2])	15.3	10.98	1.42	2.9

[1] Tax credits apply from 1984 through 1989.
[2] Subject to automatic increase.

Source: Social Security Bulletin, Annual Statistical Supplement, 1986, Table D.

TABLE 19.—MAXIMUM ANNUAL CONTRIBUTION: SELF-EMPLOYED, 1937–87

Beginning—	Total	OASI	DI	HI
1937				
1950				
1951	$81.00	$81.00		
1954	108.00	108.00		
1955	126.00	126.00		
1957	141.75	126.00	$15.75	
1959	180.00	162.00	18.00	
1960	216.00	198.00	18.00	
1962	225.60	207.60	18.00	
1963	259.20	241.20	18.00	
1966	405.90	348.15	34.65	$23.10
1967	422.40	354.75	34.65	33.00
1968	499.20	396.82	55.57	46.80
1969	538.20	435.82	55.57	46.80
1970	538.20	427.05	64.35	46.80
1971	585.00	473.85	64.35	46.80
1972	675.00	546.75	74.25	54.00
1973	864.00	670.14	85.86	108.00
1974	1,042.80	816.42	107.58	118.80
1975	1,113.90	872.08	114.91	126.90
1976	1,208.70	946.30	124.69	137.70
1977	1,303.50	1,020.52	134.47	148.50
1978	1,433.70	1,063.77	192.93	177.00
1979	1,854.90	1,376.29	238.16	240.45
1980	2,097.90	1,624.58	201.37	271.95
1981	2,762.10	2,086.43	289.57	386.10
1982	3,029.40	2,207.25	400.95	421.20
1983	3,337.95	2,539.16	334.69	464.10
1984 [1]	5,292.00	3,931.20	378.00	982.80
1985 [1]	5,583.60	4,118.40	396.00	1,069.20
1986 [1]	6,006.00	4,368.00	420.00	1,218.00
1987 [1]	6,263.40	4,555.20	438.00	1,270.20
Cumulative contributions, 1937 to 1987 [1]	49,359.45	37,523.16	4,398.09	7,438.20

[1] Includes tax credit.

Source: Social Security Bulletin, Annual Statistical Supplement, 1986, Table F.

Table 20 indicates the status of the three major social security funds, both separated and combined, measured as assets available at the beginning of each year as a percent of actual outgo during the year.

TABLE 20.—ASSETS OF OLD-AGE AND SURVIVORS INSURANCE (OASI), DISABILITY INSURANCE (DI), AND HOSPITAL INSURANCE TRUST FUNDS AT BEGINNING OF YEAR AS PERCENT OF OUTGO DURING YEAR

[In percent]

Calendar year	OASI	DI	HI	Combined
1937	.....	.....	.....	.....
1938	7,660	.....	.....	7,660
1939	8,085	.....	.....	8,085
1940	2,781	.....	.....	2,781
1941	1,782	.....	.....	1,782
1942	1,737	.....	.....	1,737
1943	1,891	.....	.....	1,891
1944	2,025	.....	.....	2,025
1945	1,975	.....	.....	1,975
1946	1,704	.....	.....	1,704
1947	1,592	.....	.....	1,592
1948	1,542	.....	.....	1,542
1949	1,487	.....	.....	1,487
1950	1,156	.....	.....	1,156
1951	698	.....	.....	698
1952	681	.....	.....	681
1953	564	.....	.....	564
1954	500	.....	.....	500
1955	405	.....	.....	405
1956	371	.....	.....	371
1957	300	.....	.....	300
1958	259	249	.....	259
1959	212	284	.....	215
1960	180	304	.....	186
1961	164	239	.....	169
1962	141	206	.....	146
1963	123	183	.....	128
1964	118	159	.....	122
1965	109	121	.....	110
1966	96	83	.....	91
1967	101	83	28	90
1968	103	83	25	90
1969	102	111	43	95

TABLE 20.—ASSETS OF OLD-AGE AND SURVIVORS INSURANCE (OASI), DISABILITY INSURANCE (DI), AND HOSPITAL INSURANCE TRUST FUNDS AT BEGINNING OF YEAR AS PERCENT OF OUTGO DURING YEAR—Continued

[In percent]

Calendar year	OASI	DI	HI	Combined
1970	101	126	47	96
1971	94	140	54	93
1972	88	140	47	87
1973	75	125	40	76
1974	68	110	69	73
1975	63	92	79	68
1976	54	71	77	60
1977	47	48	66	50
1978	39	26	57	41
1979	30	30	54	34
1980	23	35	52	29
1981	18	21	45	23
1982	15	17	52	22
1983	15	14	21	16
1984	20	35	29	23
1985	24	27	32	26
1986	28	38	41	31

Note: Assets for 1983–1986 reflect interfund borrowing. Beginning in 1984, assets of the OASI and DI Trust Funds include advance tax transfers for January.

Source: Social Security Statistical Supplement, 1983 and various trustees' reports.

APPENDIX B. DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AGED

This appendix presents selected data on the demographic and economic characteristics of the elderly. The data presented here typically cover several time periods and describe the number (table 1), marital status (table 2), living arrangements (table 3), labor force participation (table 4), poverty status (table 5), income (tables 6–17), assets, housing and tax status (tables 18–22) of the elderly, and tables 24–28 present characteristics of new retirees and newly disabled beneficiaries. Table 29 presents information on several deficit reduction options that would affect the elderly and disabled. The tables within the appendix are derived from the following sources:

(1) Social Security Administration, New Beneficiary Survey, 1982;

(2) Special tabulations of the March 1986 CPS survey by the Congressional Research Service and the Congressional Budget Office;

(3) U.S. Bureau of the Census, Current Population Reports, series P–20, P–60, and P–23, and unpublished data;

(4) Congressional Budget Office simulations based on the March 1984 Current Population Survey;

(5) 1981 Employment and Training Report of the President; and

(6) Economic Report of the President, February, 1985.

The data source is noted at the bottom of each table.

Some definitions that may be useful for reading the tables:

(1) Aged and elderly refer to anyone 65 years and older.

(2) OASDI and social security are interchangeable terms.

(3) Supplemental security income, at times, is abbreviated SSI.

(4) The concept of unit is used many times throughout this Appendix. It combines individuals living alone with couples and families.

Population

Table 1 illustrates that the elderly as a percentage of the population will increase from 6.7 percent in 1940 to 12.9 percent in the year 2000. The actual number of individuals 65 and over will almost quadruple from 9.2 million in 1940 to 35.9 million in the year 2000. In addition, the percentage of the population age 75 and over, and 85 and older will grow at an even faster rate. For example, the percentage of the population that is over age 75 was 2.1 percent in 1940 and will climb to 6.3 percent by the year 2000. The population age 85 and over will increase from 0.3 percent of the total population to 1.8 percent by 2000.

Marital Status and Living Arrangements

Table 2 presents information on the marital status of aged individuals over time. The significant feature of the table is the large percentage of women 75 years and older who are widowed. As shown in table 3, 69 percent of widowed women age 65 and older lived alone in 1986. Compared to 1970, the number of widowed women living alone has increased from 3.3 million to 5.6 million in 1986.

Table 4 presents information on the labor force participation rates of individuals age 55 and older. Since 1950, the labor force participation of men in this age group has steadily declined. For example, the rate has gone from 86.9 percent for men age 55 to 64 to 67.3 percent in 1986. The rate for men 65 and older has declined from 45.8 percent to 16.0 percent. The labor force participation rates for women are significantly different. The labor force participation for women age 55 to 64 has increased from 27.0 percent in 1950 to 42.3 percent in 1986. The rate for women 65 and over has decreased from 9.7 percent in 1950 to 7.4 percent in 1986.

TABLE 1.—ELDERLY POPULATION AS PERCENT OF TOTAL POPULATION AND DISTRIBUTION OF ELDERLY BY AGE AND SEX, 1940 TO 1980, AND PROJECTION 1990 TO 2025, SELECTED YEARS, AS OF JULY 1

	1940	1950	1960	1970	1980	1990[1]	2000[1]	2025[1]
Population 65 years and older (in thousands)	9,194	12,706	17,094	20,741	25,972	32,016	35,884	61,467
Population age 65 and older as a percent of total population	6.7	8.0	9.0	9.6	11.0	12.4	12.9	19.5
Population age 75 and older as a percent of total population	2.1	2.7	3.1	3.8	4.4	5.3	6.3	8.4
Population age 85 and older as a percent of total population	.3	.4	.5	.7	1.0	1.3	1.8	2.4
Certain age and sex groupings as a percent of the population 65 years and older:								
Total 65 years and older	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Men 65 and older	48.5	46.8	44.6	41.5	40.3	40.5	40.5	42.9
Men 65 to 74	34.2	32.1	30.4	26.5	26.4	25.7	23.4	26.7
Men 75 to 84	12.5	12.7	12.0	12.5	11.2	11.9	13.4	12.7
Men 85 and older	1.8	2.0	2.2	2.5	2.7	2.9	3.7	3.5
Women 65 and older	51.5	53.2	55.4	58.5	59.7	59.5	59.5	57.1
Women 65 to 74	34.3	34.4	35.6	34.0	34.1	31.9	28.1	30.3
Women 75 to 84	14.5	15.7	16.3	19.6	19.1	20.0	21.5	18.2
Women 85 and older	2.5	3.1	3.5	4.9	6.5	7.6	9.9	8.6

[1] Projection.

Note: Population data for 1940 and 1950 include coterminous U.S. only; 1960 and 1970 refer to total U.S. population; 1980 to 2025 refer to total U.S. plus the outlying areas and include an adjustment for the population under count.

Source: 1940 to 1970, U.S. Bureau of the Census, U.S. Census of Population, 1940, 1960, and 1970; 1980 to 2025, 1984 Annual Reports of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, and unpublished estimates from the Office of the Actuary, Social Security Administration.

TABLE 2.—MARITAL STATUS OF AGED INDIVIDUALS,[1] BY SEX AND AGE, 1970, 1980, AND 1986

	1970		1980		1986	
	65 to 74	75 and over	65 to 74	75 and over	65 to 74	75 and over
Men:						
Number (in thousands)	5,333	3,031	6,459	3,234	7,440	3,832
Percent	100.0	100.0	100.0	100.0	100.0	100.0
Married, wife present	74.6	57.5	79.4	67.7	79.2	67.9
Married, wife absent	3.0	4.0	2.2	1.7	1.9	1.9
Widowed	11.0	30.4	8.5	24.0	9.1	22.5
Divorced	2.9	1.5	4.4	2.2	4.6	2.7
Never married	8.5	6.6	5.4	4.4	5.2	5.0
Women:						
Number (in thousands)	6,741	4,608	8,549	5,411	9,439	6,610
Percent	100.0	100.0	100.0	100.0	100.0	100.0
Married, husband present	43.8	18.9	48.1	22.1	49.2	22.8
Married, husband absent	1.6	1.9	2.0	1.2	2.1	1.1
Widowed	43.7	70.5	40.3	68.0	38.8	67.1
Divorced	3.0	1.3	4.0	2.3	5.5	2.7
Never married	7.9	7.4	5.6	6.4	4.4	6.3

[1] Civilian noninstitutional population only.

Note: Details may not add to totals due to rounding.

Source: U.S. Bureau of the Census, Current Population Reports, series P–20, Nos. 212, 365, and unpublished data.

TABLE 3.—LIVING ARRANGEMENTS OF PERSONS AGED 65 AND OVER,[1] 1970, 1980, AND 1986

[Civilian noninstitutionalized population, number in thousands]

Living arrangement	Total 65 and over	Percent	Widowed men	Percent	Widowed women	Percent
Total:						
1970	19,061	100.0	1,333	100.0	5,946	100.0
1980	24,194	100.0	1,342	100.0	7,295	100.0
1986	27,321	100.0	1,541	100.0	8,099	100.0
In families:						
1970	13,347	70.0	499	37.4	2,386	40.1
1980	16,355	67.6	385	28.7	2,194	30.1
1986	18,389	67.3	468	30.4	2,318	28.6
Living alone:						
1970	5,071	26.6	708	53.1	3,309	55.7
1980	7,328	30.3	893	66.5	4,916	67.4
1986	8,318	30.4	978	63.5	5,566	68.7

TABLE 3.—LIVING ARRANGEMENTS OF PERSONS AGED 65 AND OVER,[1] 1970, 1980, AND 1986—Continued

[Civilian noninstitutionalized population, number in thousands]

Living arrangement	Total 65 and over	Percent	Widowed men	Percent	Widowed women	Percent
Other:						
1970	645	3.4	124	9.3	251	4.2
1980	511	2.1	65	4.8	186	2.5
1986	614	2.3	95	6.1	215	2.7

[1] Excludes persons in institutions (nursing homes, etc.). The number of such persons age 65 years and over was estimated to be 0.8 million in 1970, and 1.3 million in 1980, and in 1986.

Source: Bureau of the Census, Current Population Reports, P–20, No. 376 and unpublished data.

Labor Force Participation Rates

TABLE 4.—CIVILIAN LABOR FORCE PARTICIPATION RATES [1] OF PERSONS 55 YEARS AND OVER, BY AGE AND SEX, SELECTED YEARS, 1950–86

Age	1950	1955	1960	1965	1970	1975	1980	1985	1986
Men:									
55 to 64	86.9	87.9	86.8	84.6	83.0	75.8	72.3	67.9	67.3
55 to 59	(2)	92.5	91.6	90.2	89.5	84.4	81.9	79.6	79.0
60 to 64	(2)	82.5	81.1	78.0	75.0	65.7	61.0	55.6	54.9
60 to 61	(2)	(2)	(2)	84.8	82.6	75.2	71.8	68.9	67.7
62 to 64	(2)	(2)	(2)	73.2	69.4	58.8	52.8	46.1	45.8
65 and over	45.8	39.6	33.1	27.9	26.8	21.7	19.1	15.8	16.0
Women:									
55 to 64	27.0	32.5	37.2	41.4	43.0	41.0	41.5	42.0	42.3
55 to 59	(2)	35.6	42.2	47.1	50.4	47.9	48.6	50.3	51.3
60 to 64	(2)	29.0	31.4	34.0	36.1	33.3	33.3	33.4	33.2
60 to 61	(2)	(2)	(2)	40.4	41.4	39.5	39.8	40.3	40.0
62 to 64	(2)	(2)	(2)	29.5	32.3	29.0	28.6	28.7	28.5
65 and over	9.7	10.6	10.8	10.0	9.7	8.3	8.1	7.3	7.4

[1] Civilian labor force as percent of civilian population.
[2] Data not available.

Source: Monthly Labor Review, November 1979, 1981 Employment and Training Report of the President; January issue of Employment and Earnings; and unpublished data from the Bureau of Labor Statistics.

Poverty Status of Elderly

Table 5 presents information on the poverty status of elderly individuals. Overall, 3.5 million, or 12.6 percent of the noninstitutionalized aged, were poor in 1985. In spite of the slightly lower incidence of poverty among the aged than for the population as a whole, poverty among the aged varied considerably. As with other groups, the poverty rate among the black aged was higher than that of the white aged—31.5 percent compared to 11.0 percent, re-

spectively. Unrelated aged individuals, who generally tend to be older than aged persons living in families and are more likely to be female, had a poverty rate (25.6 percent), four times greater than that of aged persons living in families (6.4 percent). White unrelated individuals had a poverty rate of 22.9, while black unrelated individuals had a rate of 50.8 percent. Women, who accounted for 58.7 percent of the noninstitutionalized aged population, accounted for 72.4 percent of the aged poor.

TABLE 5.—CHANGES IN POVERTY STATUS OF ALL PERSONS, AND THE ELDERLY BY SEX, RACE, AND FAMILY STATUS, SELECTED YEARS: 1959 TO 1985

[Percent below the poverty level]

	1959	1966	1970	1975	1980	1983 [1]	1984 [1]	1985 [1]
All persons	22.4	14.7	12.6	12.3	13.0	15.2	14.4	14.0
Persons 65 years old and over								
Both sexes	35.2	28.5	24.5	15.3	15.7	14.1	12.4	12.6
Men	N.A.	23.7	19.0	11.4	10.9	10.0	8.7	8.5
Black men [2]	N.A.	52.2	41.3	31.0	31.5	28.3	25.9	26.5
Heads of household	60.4	50.0	39.2	26.0	25.0	21.3	19.6	21.0
Unrelated individuals	77.5	72.7	59.7	51.8	45.4	45.9	43.4	40.6
White men [2]	N.A.	21.3	17.0	9.5	9.0	8.2	7.2	6.9
Heads of households	26.8	18.7	13.8	7.1	6.9	6.1	5.2	4.9
Unrelated individuals	56.8	41.3	36.0	23.8	21.1	18.5	17.3	17.6
Women	N.A.	32.1	28.4	18.1	19.0	17.0	15.0	15.6
Black women [2]	N.A.	57.3	53.2	40.2	42.6	41.7	35.6	34.8
Wives	57.7	51.9	41.8	23.8	23.5	17.6	17.6	17.5
Unrelated individuals	84.6	83.9	79.2	65.8	66.6	63.6	56.6	55.4
White women [2]	N.A.	30.3	26.5	16.1	16.8	14.7	13.1	13.8
Wives	28.9	20.2	14.0	7.2	7.0	6.3	5.3	4.7
Unrelated individual	61.8	55.2	47.5	29.1	29.3	24.5	22.5	24.3

[1] The poverty definition used to produce the estimates for 1981 and years after changed slightly from previous years. If the new method were used for 1980, the heading "All persons" would read 13.2 percent below the poverty level, not 13.0 percent. In 1984, a new method of imputing missing values was utilized and new population weights were used. A comparable number for 1983 of the poverty rate for all persons was 15.3 percent.

[2] Total includes other types of family members not separately designated.

N.A.—Not available.

Sources: U.S. Bureau of the Census, Current Population Reports series P–60 referring to the population below the poverty level, various years in series; unpublished data.

Income of the Elderly

Tables 6–9 present demographic and income data for aged individuals. Tables 6 and 7 are for elderly aged 65 and over living alone or where the family is composed entirely of elderly individuals. Table 8 is similar and refers to elderly individuals or families where all member(s) are age 75 or older. Table 9 contains data for individuals or a family where at least one member of the family is age 65 or over. Finally, Tables 10 and 11 refer to single individuals

or families where the head is age 65 or over. The percentage of the aged represented in the various tables is shown below.

CHARACTERISTICS OF AGED UNITS: 1986

Description of unit	Number of units (in thousands)	Number of persons age 65 and older (in thousands)	Percent of elderly
All persons in unit age 65 and over	14,287	19,806	69.1
All persons in unit age 75 and over	5,461	6,789	23.7
At least one person age 65 or older	20,870	27,321	95.4
Family head age 65 or older	18,998	25,005	87.3
Number of aged not represented on the current population survey		1,322	4.6

Note: Units are comprised of families and unrelated individuals.

Source: March 1986 Current Population Survey. Table prepared by CRS.

Table 6 presents the percentage of aged units classified on the basis of total income to the poverty threshold with income from various sources. For example, table 6 shows that 6.2 percent of units with incomes less than 50 percent of poverty had earnings (column 1) while overall 16.0 percent (last column) had income from earnings. Approximately 95 percent of these elderly units had income from social security; 38 percent had income from pensions; and 70 percent had income from interest and dividends.

The bottom half of the table presents demographic information for each income to poverty threshold category. Of the poor, 77.6 percent are white, non-hispanic; 80.6 percent live alone; over half are age 75 or over and 76.3 percent are female.

Table 7 presents the percent of total income which is comprised of various types of income where aged units are again classified on the basis of total income to the poverty threshold. For example, from Table 7 we learn that 0.8 percent of total family income for poor units is comprised of earnings as compared to 10.5 percent for non-poor units. Pension income accounts for 1.9 percent of total income received by poor units while it comprises 15.7 percent for non-poor units. Social security and SSI income represent 90 percent of total income for poor units and approximately 40 percent for non-poor units.[1]

Table 8 presents similar information for units comprised entirely of individuals age 75 and over, to tables 6 and 7. Overall, the pattern of income is not substantially different. The most significant difference is that 5.8 percent of units age 75 and over receive income from earnings compared to 16.2 for units age 65 and over. Older units are less likely to receive pension income and they are slightly more likely to receive income from means-tested programs; but that is because a larger percentage of older units are poor.

Table 9 presents identical information as Table 8; however, the universe are all units where at least one member of the family is

[1] Withdrawals from savings are not included as income on the CPS. For the aged in particular, dissaving may provide an important means of maintaining a desired level of consumption.

over age 65. The primary difference compared to units composed entirely of elderly members is the percentage of units with income from earnings and the percent of total income which is earnings.

TABLE 6.—PERCENT OF UNITS [1] WITH ALL MEMBERS AGE 65 OR OVER WITH INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[2] 1985

	Ratio of total income to poverty threshold										
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor	Total
Number of units (in thousands)	313	608	1,632	1,586	1,346	2,038	2,764	4,004	2,553	11,733	14,287
Percent of units	2.2	4.3	11.4	11.1	9.4	14.3	19.3	28.0	17.9	82.1	100.0
Earnings	6.2	5.2	3.0	6.4	8.0	13.4	19.7	29.1	3.9	18.7	16.0
OASDI, railroad retirement	58.3	89.3	93.4	97.4	98.0	98.4	97.9	93.5	88.1	96.5	95.0
Pensions	6.5	4.5	6.2	12.5	23.3	41.4	56.1	59.7	5.8	45.1	38.1
Unemployment compensation, workers compensation, veterans payments	2.3	4.6	4.5	7.6	5.1	5.8	5.6	5.4	4.2	5.8	5.5
AFDC, SSI, general assistance	10.0	18.8	34.3	11.0	9.2	2.8	.8	.5	27.6	3.4	7.7
Child support, alimony	1.8	3.9	2.2	1.7	2.1	1.7	1.8	2.1	2.5	1.9	2.0
Interest, dividends	30.3	33.8	28.2	47.2	59.5	72.7	87.1	96.2	29.8	79.1	70.3
Food stamps	15.2	19.0	29.5	6.5	2.3	.6	.4	.1	25.3	1.4	5.6
Housing assistance	9.6	15.5	21.1	17.3	12.7	7.7	3.1	1.0	18.4	6.2	8.4
CHARACTERISTICS OF PERSONS											
Number of people (thousands)	382	647	1,801	1,864	1,715	2,851	4,170	6,375	2,831	16,975	19,806
Percent white non-Hispanic [3]	78.6	79.2	76.8	85.8	86.6	90.6	94.0	97.2	77.6	93.0	90.8
Percent black non-Hispanic	16.6	17.1	17.8	10.7	10.4	7.3	4.4	1.8	17.5	5.2	6.9
Percent Hispanic	4.8	3.7	5.4	3.6	3.0	2.1	1.6	1.0	4.9	1.8	2.3
Percent unrelated individuals	64.1	87.8	81.5	70.7	57.7	43.8	33.4	26.6	80.6	39.2	45.4
Percent female	63.8	77.2	78.5	72.4	69.7	63.5	58.0	57.6	76.3	61.5	63.6
Percent age 75 and over	50.3	52.7	52.4	53.3	45.4	45.6	39.4	33.3	52.2	40.3	41.8
Percent female and age 75 and over	32.8	43.1	41.1	39.2	30.9	28.5	21.7	18.1	40.4	24.4	26.5

[1] Includes unrelated individuals (elderly living alone). [2] Based on census ("Orshansky") poverty levels. [3] Includes "other" races.

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

TABLE 7.—PERCENT OF TOTAL UNIT INCOME [1] FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[2] FOR UNITS WITH ALL MEMBERS AGE 65 OR OVER, 1985

	Ratio of total income to poverty threshold—poverty ratio										
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor	Total
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	3.9	1.1	.6	1.5	1.9	3.6	6.5	14.1	.8	10.5	10.1
OASDI, railroad retirement	70.6	77.8	80.1	84.1	79.2	69.8	54.7	26.1	79.3	41.0	42.8
Pensions	2.6	1.6	2.0	2.4	6.0	10.6	16.7	17.9	1.9	15.7	15.0
Unemployment compensation, workers compensation, veterans payments	1.3	1.5	.9	2.1	1.4	1.9	1.5	.8	1.0	1.1	1.1
AFDC, SSI, general assistance	7.1	10.0	13.2	4.1	3.4	.8	.1	.0	12.3	.5	1.0
Child support, alimony	1.4	1.1	.4	.3	.3	.2	.3	.3	.6	.3	.3
Interest, dividends	13.1	7.0	2.9	5.6	7.7	13.1	20.2	40.7	4.1	31.0	29.7
Food stamps [3]	(6.0)	(2.5)	(1.9)	(.4)	(.1)	(.0)	(.0)	(.0)	(2.2)	(.0)	(.1)
Housing assistance [3]	(8.7)	(7.1)	(8.9)	(4.7)	(3.1)	(1.1)	(.2)	(.0)	(8.6)	(.5)	(.9)
Mean cash income per family member	$881	$3,168	$4,221	$5,181	$5,931	$7,070	$9,536	$20,398	$3,529	$12,359	$11,097
Mean family size	1.2	1.1	1.1	1.2	1.3	1.4	1.5	1.6	1.1	1.4	1.4

[1] Only for units with non-negative income.

[2] Based on census ("Orshansky") poverty levels.

[3] The cash value of food stamps and housing assistance were estimated using their market values. Their cash values are excluded from total income for purposes of determining poverty status as well as for calculating the percentage share of total income. The numbers in this row for food stamps and housing assistance represent the added percentage contribution to total cash income.

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

TABLE 8.—PERCENT OF UNITS [1] WITH ALL MEMBERS AGE 75 OR OVER WITH INCOME FROM VARIOUS SOURCES, AND PERCENT OF TOTAL UNITS INCOME FROM EACH SOURCE, BY POVERTY [2] STATUS: 1985

	Percent of units with income from each source			Percent of units income from each source		
	Total	Poor	Nonpoor	Total	Poor	Nonpoor
Number of units (in thousands)	5,461	1,253	4,208	N/A	N/A	N/A
Number of individuals	6,789	1,343	5,446	N/A	N/A	N/A
Percent of units	100.0	22.9	77.1	N/A	N/A	N/A
Earnings	5.8	1.9	7.0	3.1	0.3	3.3
OASDI, railroad retirement	96.0	90.6	97.6	46.7	80.8	44.1
Pensions	30.5	6.5	37.6	12.4	1.9	13.2
Unemployment compensation, workers compensation, veterans payments	4.2	4.6	4.1	0.7	1.1	0.7
AFDC, SSI, general assistance	8.9	25.9	3.9	1.3	10.5	0.5
Child support, alimony	2.1	2.6	2.0	0.5	0.5	0.5
Interest, dividends	69.0	33.4	79.6	35.3	5.0	37.7
Food stamps [3]	6.6	23.8	1.4	(0.2)	(2.1)	(0)
Housing assistance [3]	11.5	18.8	9.3	(1.5)	(8.6)	(0.9)

[1] Includes both families and unrelated individuals.

[2] Based on census ("Orshansky") poverty levels.

[3] The cash values of food stamps and housing assistance were estimated using their market values. Their cash values are excluded from total income for purposes of determining poverty status as well as for calculating the percentage share of total income. The numbers in parentheses for food stamps and housing assistance represent the added percentage contribution to total cash income.

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

TABLE 9.—PERCENT OF UNITS [1] WITH ANY MEMBER AGE 65 OR OVER WITH INCOME FROM VARIOUS SOURCES, AND PERCENT OF TOTAL UNIT INCOME FROM EACH SOURCE, BY POVERTY [2] STATUS: 1985

	Percent of units with income from each source			Percent of unit income from each source		
	Total	Poor	Nonpoor	Total	Poor	Nonpoor
Number of units (in thousands)	20,870	3,135	17,736	N/A	N/A	N/A
Number of aged individuals	27,321	3,456	23,865	N/A	N/A	N/A
Percent of units	100.0	15.0	85.0	N/A	N/A	N/A
Earnings	33.5	9.6	37.8	30.1	5.6	30.9
OASDI, railroad retirement	92.8	86.4	93.9	32.2	72.7	30.8
Pensions	38.6	6.9	44.2	12.6	2.2	12.9
Unemployment compensation, workers compensation, veterans payments	8.4	4.9	9.0	1.2	1.5	1.2
AFDC, SSI, general assistance	9.3	29.1	5.8	1.1	13.6	0.7
Child support, alimony	3.6	3.4	3.6	0.5	0.9	0.5
Interest, dividends	69.7	28.3	77.0	22.3	3.5	22.9
Food stamps [3]	5.7	26.5	2.1	0.2	3.3	0.0
Housing assistance [3]	6.3	16.1	4.6	0.5	6.9	0.3

[1] Includes both families and unrelated individuals

[2] Based on census ("Orshansky") poverty levels.

[3] The cash values of food stamps and housing assistance were estimated using their market values. Their cash values are excluded from total income for purposes of determining poverty status as well as for calculating the percentage share of total income. The numbers in parentheses for food stamps and housing assistance represent the added percentage contribution to total cash income.

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

Tables 10 through 12 provide data from the Current Population Survey for 1985. Table 10 shows the distribution of the share of total family income which is comprised of social security income. The tables include all units where the head is aged 65 and over including families and unrelated individuals as well. For example, for elderly units in poverty, social security represents over 90 percent of their income in 49.4 percent of such families. For elderly families above three times poverty, less than 1 percent of such families have 90 percent or more of their income from social security.

Table 11 presents similar information except that it shows the percent of family income derived from supplemental security income (SSI) and social security benefits combined.

Table 12 presents the number of families with different combinations of SSI, social security or railroad retirement, and food stamp income. For families in poverty, 87.6 percent receive social security or railroad retirement, 26.6 percent receive SSI, and 26.3 percent receive food stamp benefits. Only 12.5 percent of elderly families under poverty receive all three types of income.

TABLE 10.—SOCIAL SECURITY INCOME AS A PERCENT OF TOTAL UNIT INCOME,[1] BY RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD, FOR UNITS WITH A HEAD AGE 65 OR OVER, 1985

[In percent]

	Ratio of total income to poverty threshold									Poor	Nonpoor
	Total	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Social security as a percent of total income:											
0.1 to 24.9	16.2	.....	1.5	1.4	1.1	2.6	4.1	8.7	41.0	1.2	19.0
25 to 49.9	25.2	6.7	5.1	6.1	7.1	11.4	18.5	35.3	40.1	5.9	28.8
50 to 79.9	26.5	14.8	21.2	24.5	22.1	32.0	43.6	45.6	9.9	22.4	27.3
80 to 89.9	7.0	2.7	8.6	10.2	13.5	14.9	14.9	4.5	.3	8.8	6.6
90 or more	19.0	[2] 34.5	53.1	51.1	53.0	36.4	17.0	3.0	.3	49.4	13.4
Percent of units with social security income	93.9	58.7	89.5	93.2	96.9	97.4	98.0	97.1	91.5	87.7	95.1
Percent of units without social security income	6.1	41.3	10.5	6.8	3.1	2.6	2.0	2.9	8.5	12.3	4.9

[1] For units with non-negative income only.

[2] The number 34.5 in the second column means that 34.5 percent of units with a head over age 65 with total incomes less than 50 percent of poverty depend upon social security benefits for 90 percent or more of their income.

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

TABLE 11.—SOCIAL SECURITY AND SUPPLEMENTAL SECURITY INCOME AS A PERCENT OF TOTAL UNIT INCOME,[1] BY RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD, FOR UNITS WITH A HEAD AGE 65 OR OVER, 1985

	Ratio of total income to poverty threshold										
	Total	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Social security and SSI as a percent of total income:											
0.1 to 24.9	16.1	.3	1.6	.8	1.1	2.5	3.5	8.6	41.1	.9	18.9
25 to 49.9	24.3	6.6	2.1	3.3	5.2	9.3	18.0	34.9	40.0	3.4	28.1
50 to 79.9	24.3	14.3	16.6	10.4	17.5	27.6	43.4	46.2	10.0	12.4	26.5
80 to 89.9	6.5	2.5	6.0	8.0	12.6	14.6	14.7	4.7	.3	6.7	6.5
90 or more	24.0	[2] 41.2	69.4	75.9	62.3	44.3	18.7	3.0	.3	69.6	15.6
Percent of families with social security and/or SSI income	95.2	64.8	95.7	98.4	98.7	98.3	98.3	97.3	91.7	93.2	95.5
Percent of families without social security or SSI income	4.8	35.2	4.3	1.6	1.3	1.7	1.7	2.7	8.3	6.8	4.5

[1] For units with non-negative income only.

[2] The number 41.2 in the second column means that 41.2 percent of families with a head over age 65 with total incomes less than 50 percent of poverty depend upon social security and/or SSI benefits for 90 percent or more of their income.

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

TABLE 12.—RECEIPT OF SOCIAL SECURITY, SUPPLEMENTAL SECURITY INCOME, FOOD STAMPS, AND COMBINATIONS THEREOF, AMONG FAMILIES [1] WITH AN AGED HEAD CLASSIFIED BY FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY THRESHOLD: 1985

Type of benefit	Less than 100 percent		100 to 149.9 percent	
	Number (in thousands)	Percent	Number (in thousands)	Percent
Social security [2]	2,618	87.6	3,369	97.1
SSI	794	26.6	419	12.1
Food stamps	785	26.3	241	6.9
Social security only [3]	1,701	56.9	2,863	82.5
SSI only [3]	59	2.0	33	1.0
Food stamps only [3]	15	0.5	1	0.0
Social security and food stamps [4]	288	9.6	134	3.9
Social security and SSI [4]	254	8.6	281	8.1
SSI and food stamps [4]	107	3.6	13	0.4
All three income sources	375	12.5	92	2.7
No social security, SSI, or food stamps	192	6.4	54	1.6
Total	2,990	.....	3,470	.....

[1] Includes unrelated individuals and elderly individuals living alone.

[2] Includes railroad retirement.

[3] Row 4 which is labeled "social security only" means the family only receives social security and does not receive SSI or food stamps. The family could be receiving other types of income. The same is true of rows 5 and 6.

[4] Family receives only the two types of income specified but not the third. The family could be receiving other sources of income than the three mentioned.

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

Antipoverty Effectiveness of Transfer Programs

Table 13 explores the effectiveness of various income sources in addressing poverty. Families differ markedly by the combinations of income upon which they rely for support. For example, families with an aged member and aged unrelated individuals typically rely upon a combination of income from social security, pensions, returns on investments and saving, as well as earnings. In combination, these sources offer the potential for income support above the poverty threshold. However, as the sole source of income support, none of these sources may be deemed adequate.

One way of assessing the antipoverty effectiveness of various income sources is to estimate the number of persons who would be counted as poor if a particular source of income were not received. The additional number of persons that are counted as poor provides an estimate of the number of people lifted out of poverty by a particular income source. For example, the effect of social security upon poverty can be seen by comparing the number who would be counted as poor if they did not receive social security, with the number of poor after social security income is counted (column 3 compared to column 1 of table 13).

Another way of assessing the effectiveness of various income sources upon poverty is by estimating the degree to which those sources reduce the gap between a poor family's income and the poverty threshold (bottom 3 rows of table 13). This gap (or "difference") is sometimes known as the "poverty gap" or the "poverty income deficit." A cash transfer program which is highly targeted on the poor may do little to eliminate poverty—that is, to reduce the number who are counted as poor—but such a program may still have a very real impact by reducing the degree of poverty as viewed in terms of the poverty gap.

Table 13 shows the relative antipoverty effect of various income sources in 1985 upon the aged. For example, the first column shows the number of elderly persons who were poor, and the poverty rate, in 1985. The second column shows how many persons would be poor if they had only earnings and miscellaneous sources of income (interest, dividends, alimony and child support) upon which to depend. The third column shows how many persons would be counted as poor if they had all sources of income currently available to them, except for social security and railroad retirement. The relative effect of each source can be seen by comparing the number in poverty under the alternate income definitions with the first column. For purposes of illustration, the cash value of food stamps is also included, even though food stamps are not included as income under the official definition of poverty. The last three rows of table 13 show the aggregate poverty gap (in millions of dollars) and average poverty gap [2] per person. The aggregate poverty gap is the amount of dollars that would be required to give all persons in poverty an income equal to the poverty line.

Private and government pensions may be viewed as either deferred compensation, provided by employers, or as savings for retirement. Pension benefits are closely related to the labor market, usually being directly or indirectly related to years of service and wage and salary levels attained when individuals were working. Private and government pensions played an important role in reducing poverty among the aged. In 1985, about one-fifth of total pension benefits went to persons who were poor before they received them. These benefits reduced the incidence of poverty among the aged by about 22 percent, and reduced the aggregate poverty gap by over 26 percent.

Social insurance programs provide another tier of income support, helping to protect covered individuals from loss of work related income resulting from a number of specific risks, such as old age, unemployment, and work related disabilities. Social insurance programs are second only to earnings in terms of their effect upon poverty. Among these programs, social security is the largest. In fiscal year 1985, social security outlays amounted to $191 billion. While only about 50 percent of social security payments [3] went to persons who were poor before they received them (the pretransfer poor), social security had the greatest impact upon reducing poverty other than earnings. Social security reduced the aggregate pov-

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[2] The average poverty gap per person is the total family poverty gap divided by the number of family members.

[3] Includes railroad retirement.

erty gap by over 88 percent for persons age 65 and over. Social security income lifted approximately 9.5 million older persons out of poverty. Social security reduced the poverty rate among the aged from 47.6 percent to 12.6 percent—a reduction of 73.5 percent.

TABLE 13.—NUMBER OF PERSONS AGE 65 AND OVER IN POVERTY AND THE POVERTY GAP UNDER VARIOUS INCOME CONCEPTS, 1985

	Total income official poverty measure	Only earnings, dividends, interest, and misc. income	Total income less—				Total income plus—food stamps[1]
			Social security, railroad retirement	Pensions	Unemployment compensation, workers compensation, veterans pension	AFDC, SSI, general assistance	
Poor persons age 65 and over (in thousands)	3,456	16,555	12,995	4,413	3,750	3,954	3,320
Poverty rate	12.6	60.6	47.6	16.2	13.7	14.5	12.2
Percentage reduction in poverty			−73.5	−22.2	−8.0	−13.1	−3.9
Poverty gap:							
Persons age 65 and over (aggregate gap in millions)	$4,177	$52,123	$36,152	$5,666	$4,667	$6,219	$3,925
Per elderly poor person [2]	$1,209	$3,149	$2,782	$1,248	$1,245	$1,573	$1,182
Percentage reduction in aggregate gap			−88.4	−26.3	−10.5	−32.8	−6.0

[1] The cash value of food stamps is estimated at its market value.
[2] The average poverty gap per poor person is the total family poverty gap divided by the number of family members.

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

Table 14 displays the effectiveness of social insurance and means-tested transfer programs in eliminating poverty among the elderly over the 7-year period between 1979 and 1985. For a more complete description of how the table was constructed, see Appendix J. The table shows that over this period the antipoverty effectiveness of both social insurance and means-tested programs steadily improved for the elderly. Despite an increase in the overall elderly population, the number of individuals in poverty and the poverty gap declined during this period. The number of individuals removed from poverty by social insurance programs increased from 7.1 to 8.1 million between 1979 and 1985. The percentage of elderly individuals removed from poverty due to social insurance increased from 68.3 percent to 71.9 percent from 1979 to 1985. The number removed from poverty by means-tested transfer programs increased from 716,000 to 799,000 over the same period. After both social insurance and means-tested transfers are taken into account, the poverty gap declined from $3.2 billion in 1979 (1985 dollars) to $3.0 billion in 1985.

TABLE 14.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL UNITS WITH ALL MEMBERS 65 OR OLDER, 1979–85

	1979	1980	1981	1982	1983	1984	1985
Number of poor individuals (thousands):							
Before transfers	10,385	10,821	10,884	10,772	10,843	11,009	11,200
Plus social insurance (other than social security)	10,165	10,650	10,763	10,604	10,654	10,862	11,033
Plus social security	3,288	3,441	3,353	3,226	3,231	3,072	3,146
Plus means-tested cash transfers (official definition)	2,936	3,133	3,066	3,005	2,928	2,717	2,831
Plus food and housing benefits	2,572	2,708	2,621	2,631	2,520	2,250	2,347
Less Federal taxes	2,577	2,717	2,644	2,638	2,533	2,256	2,353
Number of individuals removed from poverty due to (thousands):							
Social insurance	7,097	7,380	7,531	7,546	7,612	7,937	8,054
Means-tested cash, food and housing benefits	716	733	732	595	711	822	799
Added due to Federal taxes	5	9	23	7	13	6	6
Percent of individuals removed from poverty due to (thousands):							
Social insurance (including social security)	68.3	68.2	69.2	70.1	70.2	72.1	71.9
Means-tested cash, food and housing benefits and Federal taxes	21.6	21.0	21.1	18.2	21.6	26.6	25.2
Poverty gap (millions of 1985 dollars):							
Before transfers	32,433	34,810	35,026	34,695	34,502	34,918	35,796
Plus social insurance (other than social security)	30,908	33,322	33,859	33,648	33,261	33,721	34,619
Plus social security	5,544	5,554	5,404	5,542	5,382	4,955	5,217
Plus means-tested cash transfers (official definition)	3,695	3,709	3,787	3,943	3,531	3,131	3,535
Plus food and housing benefits	3,191	3,153	3,210	3,442	3,070	2,623	2,984
Less Federal taxes	3,200	3,165	3,218	3,450	3,082	2,630	2,991

TABLE 14.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL UNITS WITH ALL MEMBERS 65 OR OLDER, 1979–85—Continued

	1979	1980	1981	1982	1983	1984	1985
Percentage reduction in poverty gap due to:							
Social insurance (including social security)	82.9	84.0	84.6	84.0	84.4	85.8	85.4
Means-tested cash, food and housing benefits and Federal taxes	42.3	43.0	40.4	37.7	42.7	46.9	42.7
Poverty rate for individuals (in percent):							
Before transfers	60.0	60.1	58.9	57.3	56.2	56.3	56.6
Plus social insurance (other than social security)	58.7	59.1	58.2	56.4	55.3	55.5	55.7
Plus social security	19.0	19.1	18.1	17.2	16.8	15.7	15.9
Plus means-tested cash transfers (official definition)	17.0	17.4	16.6	16.0	15.2	13.9	14.3
Plus food and housing benefits	14.9	15.0	14.2	14.0	13.1	11.5	11.8
Less Federal taxes	14.9	15.1	14.3	14.0	13.1	11.5	11.9

Source: Congressional Budget Office and Committee staff.

TABLE 15.—PERCENTAGE DISTRIBUTION OF SELECTED SOURCES OF INCOME RECEIVED BY FAMILIES WITH AN AGED MEMBER, BY FAMILY MONEY INCOME AS A RATIO OF THE POVERTY LEVEL, 1985

[In percent]

Type of income	Percent received by families with aged individuals	Ratio of total income to poverty threshold										
		Total	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Non-poor
Total income	16.7	100.0	0.2	0.7	2.3	3.1	3.5	7.3	16.7	66.2	3.2	96.8
Social security and railroad retirement	83.6	100.0	.3	1.6	5.4	7.5	7.5	14.1	23.3	40.3	7.3	92.7
SSI	47.2	100.0	1.4	8.1	28.5	15.7	14.1	10.4	12.4	9.4	38.0	62.0
AFDC and general assistance	5.0	100.0	4.1	10.1	26.4	14.6	9.5	13.0	15.6	6.6	40.7	59.3
Food stamps	8.8	100.0	10.1	23.9	35.6	13.0	7.2	5.0	4.0	1.3	69.5	30.5
Unemployment compensation, workers compensation, and veterans payments	19.1	100.0	.2	.9	2.8	6.0	5.6	13.4	23.7	47.4	3.9	96.1
Wages, salaries, farm and self-employment	6.4	100.0	.1	.1	.4	.6	1.3	3.3	13.0	81.2	.6	99.4
Pensions	57.6	100.0	.0	.1	.4	.7	1.7	5.7	18.6	72.8	.6	99.4
Child support, alimony	7.6	100.0	.2	2.4	2.7	2.5	4.0	5.9	14.2	68.0	5.3	94.7
Property income	47.9	100.0	.1	.2	.3	.6	1.0	3.5	11.0	83.3	.5	99.5

Note: This table shows for families with at least one aged member the percentage of selected sources of income received by families classified by poverty level. The first number in the first column, 16.7 percent, means that 16.7 percent of all income accrues to families that include an aged member. The next number in the first row means 0.2 percent of all income received by these families accrues to those families that have an income of less than 50 percent of the poverty level.

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

Per Capita Income By Age of Head

Table 16 shows the average income per household member before and after taxes for the calendar years 1980 and 1984. Taxes simulated in the study included Federal income taxes, State individual income taxes, property taxes on owner-occupied housing, and payroll taxes. They do not include sales or excise taxes.

As shown in the table, after-tax income of elderly individuals is exceeded only by households headed by individuals aged 50–64. The amount of taxes paid as a percent of income varied from 13.9 percent of income for household members in households headed by someone age 65 or older to 23.9 percent of income in households where the head was age 50–54. In using income per household member across different family types, it should be noted that most households headed by someone aged 65 or over are one- or two-member households and thus housing consumes a greater proportion of household income.

TABLE 16.—MEAN INCOME BEFORE AND AFTER TAX PER HOUSEHOLD MEMBER, 1980 AND 1984

	1980 [1] income per household member		Taxes as a percent of income	1984 income per household member		Taxes as a percent of income	After tax percent change 1980–84
	Before taxes	After taxes		Before taxes	After taxes		
Age of households:							
15–24	7,975	6,494	18.6	7,151	5,896	17.5	−9.2
25–29	9,095	7,098	22.0	9,260	7,304	21.1	2.9
30–34	8,787	6,717	23.6	9,056	7,069	21.9	5.2
35–39	8,812	6,615	24.9	9,459	7,260	23.2	9.8
40–44	9,198	6,889	25.1	9,869	7,550	23.5	9.6
45–49	10,281	7,667	25.4	11,042	8,424	23.7	9.9
50–54	11,264	8,380	25.6	11,881	9,045	23.9	7.9
55–59	12,879	9,545	25.9	12,976	9,846	24.1	3.2
60–64	12,154	9,361	23.0	12,608	9,824	22.1	4.9
65 and over	9,130	7,940	13.0	10,316	8,886	13.9	11.9
All households	9,731	7,518	22.7	10,207	8,015	21.5	6.6

[1] In 1984 dollars.

Source: Bureau of the Census Series P–23, After Tax Money Income Estimates of Households; No. 126, Table I; No. 147, Table 1.

Tax Treatment of the Elderly

Present law includes a number of provisions that have the effect of reducing or eliminating the burden of Federal income tax on individuals who are elderly, disabled, or unable to work on account of injury or layoff. Some of these special provisions are targeted to lower income taxpayers; others reduce taxes for all taxpayers.

Prior law

Before 1987, the taxes of the elderly were reduced relative to that of other taxpayers through several mechanisms: the extra personal exemption, the credit for the elderly and disabled, the exclusion of Medicare benefits, and the nontaxation of social security benefits for individuals with adjusted gross income below certain thresholds.

Generally, prior law provided a personal exemption, worth $1,080 in 1986, to every taxpayer, the taxpayer's spouse, and each of the taxpayer's dependents. An additional personal exemption was provided for an individual who was age 65 or older, or who was blind. An individual who was both age 65 and blind was entitled to claim two additional personal exemptions. Thus, an individual age 65 or older was entitled to a personal exemption in 1986 of $2,160; an individual who was both elderly and blind, an exemption of $3,240.

Prior law also provided a nonrefundable income tax credit for individuals age 65 or older or those who retired on permanent or total disability. This mechanism remains unchanged in present law, and is described more fully below. In addition, prior law (as does present law) exempted social security benefits from taxation unless the individual's adjusted gross income exceeded $25,000 in the case of a single individual, and $32,000 in the case of married taxpayers filing jointly. See section 12, part 1, for a more complete explanation.

Present law

The Tax Reform Act of 1986 expanded the size of the personal exemption for every taxpayer to $1,900 in 1987, $1,950 in 1988, and $2,000 in 1989. After 1989, the personal exemption is indexed, so it is scheduled to increase with increases in the Consumer Price Index. (After 1987, the personal exemption is phased out for very high income taxpayers).

As a result of the Act, the elderly are not entitled to an extra personal exemption. Instead, present law provides for every person who is blind or elderly an addition to the individual's standard deduction. The additional amount is $600 for each married individual who is blind or elderly, and $750 for each unmarried blind or elderly individual. A person who is both blind and elderly is entitled to an addition to the individual's standard deduction of $1,200 if married filing jointly, and $1,500 if single. After 1987, these amounts are indexed to increases in the Consumer Price Index.

As under prior law, present law provides a nonrefundable income tax credit for individuals who are age 65 or over, or who have retired on permanent and total disability. For this purpose the definition of disability is identical to the standard used to determine eligibility for social security disability benefits. This credit is designed to provide tax benefits to individuals who receive only taxable retirement or disability income, or who receive a combination of taxable retirement or disability income plus social security benefits, that are generally comparable to the tax benefits provided to individuals who receive only social security benefits.

The credit equals 15 percent of an amount which equals an initial base amount ($5,000 for individual filers), as specified in the statute, that is then reduced by the amount of certain tax-free income received by the taxpayer and by one-half of the taxpayer's AGI exceeding a specified threshold. The credit is not indexed to the Consumer Price Index.

Like prior law, present law exempts from taxation the social security benefits of individuals whose Adjusted Gross Income is below certain thresholds ($25,000 for unmarried individuals, $32,000 for married couples filing jointly). These thresholds are not indexed to the Consumer Price Index.

As a result of the additional standard deduction, the credit, and the tax exemption for certain social security benefits, the tax threshold for elderly persons (that is, the income level at which a positive tax liability is incurred) is well above the poverty level. Indeed, as table 18 shows, the combination of these special tax provisions ensures that 58.6 percent of elderly individuals have no Federal income tax liability. For example, in 1988, the income tax threshold of a single elderly individual with $5,000 of social security income is $5,700, and for an elderly married couple filing jointly is $11,733 (see table 17.)

In 1985 the average annual benefit of a retired worker was $5,590; the average annual benefit of a retired worker and spouse was $9,767.

TABLE 17.—TAX THRESHOLDS FOR ELDERLY INDIVIDUALS,[1] 1988–90

Year and filing status	Amount of social security income			
	Zero	$2,500	$5,000	$7,500
1988:				
Single	9,633	7,967	5,700	5,700
Joint	15,067	13,400	11,733	10,100
1989:				
Single	9,733	8,067	5,850	5,850
Joint	15,267	13,600	1,933	10,400
1990:				
Single	9,900	8,233	6,100	6,100
Joint	15,533	13,867	12,200	10,800

[1] Tax threshold is amount of adjusted gross income (excluding social security) at which tax liability begins. Table assumes taxpayers are 65 or older, are not blind, and receive no excludable disability benefit, annuity, or pension income other than social security income.

TABLE 18.—DISTRIBUTION OF ELDERLY BY INCOME CLASS, CALENDAR YEAR 1988

Income [1] class (thousands)	Number of elderly individuals (thousands)	Percentage of elderly
Taxable returns:		
Below $10	37	0.1
$10 to $20	1,787	5.9
$20 to $30	3,097	10.2
$30 to $40	3,126	10.3
$40 to $50	1,604	5.3
$50 to $75	1,572	5.2
$75 to $100	601	2.0
$100 to $200	539	1.8
$200 and over	240	0.8
Nontaxable	17,840	58.6
Total	30,441	100.0

[1] The income concept used to place tax returns into income classes is adjusted gross income plus (1) tax exempt interest, (2) employer contributions for health plans and life insurance, (3) inside build-up on life insurance, (4) workers' compensation, (5) social security benefits, (6) contributions to individual retirement accounts, (7) the minimum tax preferences, and (8) net losses, in excess of minimum tax preferences, from passive business activities.

Source: Joint Committee on Taxation.

Wealth Status of the Elderly

Tables 19 through 22 present information on the wealth status of elderly households. Table 19 shows that in 1984 the mean net worth (that is, wealth less unsecured debt) of households headed by an individual 65 and over equalled $104,850. The largest source of the net worth of elderly households was ownership of financial assets (40 percent), followed by home equity (38 percent). Business equity, both farm and nonfarm, comprised only 15 percent of the net worth of the elderly.

Table 20 shows that elderly headed households had median net worth in excess of that of any other age category, except households headed by an individual between 55 and 64. Within the category of elderly households, those headed by an individual aged 75 and over had significantly less net worth ($90,189) than those headed by an individual between 70 and 74 ($103,435) or an individual between 65 and 69 ($125,420).

Table 21 shows the distribution in 1983 of financial assets and home ownership by age of household head from 25 years of age and older. The mean financial holdings of households headed by an individual between 65 and 74 exceeds that of any other age category. However, mean financial asset holdings of households headed by an individual 75 years of age or older are substantially lower ($37,060) than those of households with an elderly head between 65 and 74 years old ($65,340).

Table 22 shows housing tenure for poor and nonpoor aged families and unrelated individuals. The table shows that the majority of poor families with an aged member (72 percent) and aged poor unrelated individuals (51 percent) owned their own home or lived with relatives in an owner occupied unit. In comparison, 86 percent of aged nonpoor families and 64 percent of aged nonpoor unrelated individuals owned their own home. About one in five (19.7 percent) poor aged unrelated individuals reported living in publicly supported housing (either public housing or rent subsidized housing). About 9 percent of aged nonpoor unrelated individuals lived in publicly supported housing.

TABLE 19.—PERCENT HOLDING EACH TYPE OF ASSET, MEAN AMOUNTS OF ASSETS FOR THOSE WITH THE ASSET, AND PERCENTAGE COMPOSITION OF NET WORTH, 1984

Age of householder	Percent holding asset	Mean amount [1]	Percentage composition [2]
65 years and over:			
Net worth	100.0	$104,850	100.0
Interest earning financial assets at financial institutions	77.5	33,200	24.6
Other interest earning assets	11.6	43,400	4.8
Regular checking account	48.5	1,380	.6
Stock and mutual fund shares	21.1	42,260	8.5
U.S. Savings bonds	11.3	6,140	.7
IRA or Keogh accounts	8.5	15,240	1.2
Own home	73.0	[3] 54,670	38.2
Own business or profession	5.1	[3] 90,980	4.4
Rental property	10.8	[3] 78,190	8.1
Other real estate	8.4	[3] 36,960	3.0
Motor vehicles	71.4	[3] 5,000	3.4
Mortgages	5.2	.....	.....
Other assets	[4] 2.9	[5] 48,830	2.4
75 years and over:			
Net worth	100.0	$90,190	100.0
Interest earning financial assets at financial institutions	78.3	35,160	30.5
Other interest earning assets	11.2	43,300	5.4
Regular checking account	47.3	1,560	.8
Stock and mutual fund shares	20.8	28,960	6.7
U.S. Savings bonds	9.2	9,160	.9
IRA or Keogh accounts	3.8	5,750	.2
Own home	69.3	[3] 51,370	39.4
Own business or profession	3.2	[3] 85,740	3.0
Rental property	10.5	[3] 60,070	7.0
Other real estate	6.1	[3] 30,260	2.0
Motor vehicles	58.6	[3] 3,870	2.5
Mortgages	4.3	.....	.....
Other assets	[4] 2.2	[5] 31.730	1.5

[1] Mean amount for those owning the asset, except for mean net worth, which is for all households.
[2] Composition of aggregate assets for all households.
[3] Equity.
[4] Includes unit trusts and other financial investments.
[5] Includes mortgages held from sale of real estate, amount due from sale of a business, unit trusts, and other financial investments.

Source: Household Wealth and Asset Ownership: 1984, Data from the Survey of Income and Program Participation, Bureau of the Census, July 1986.

TABLE 20.—MEAN AND MEDIAN NET WORTH, BY AGE OF HOUSEHOLDER, 1984

	Net worth [1]	
	Mean	Median
Age of householder:		
All ages	$78,734	$32,667
Under 35	22,703	5,764
35 to 44	69,480	35,581
45 to 54	115,263	56,791
55 to 64	130,498	73,664
65 and over	104,851	60,266
65 to 69	125,420	66,621
70 to 74	103,435	60,573
75 and over	90,189	55,178

[1] Net worth is defined as wealth minus unsecured debt.

Source: Household Wealth and Asset Ownership: 1984, Current Population Reports, series P-70, No. 7. Data from the Survey of Income and Program Participation.

TABLE 21.—FINANCIAL ASSETS AND HOMEOWNERSHIP OF HOUSEHOLDS HOLDING SUCH ASSETS, BY AGE GROUP, 1983

Age of head (years)	Percent of households owning liquid assets	Liquid assets of those holding such assets [1]		Total financial assets of households holding such assets [2]		Percent of households with homeownership	Net equity of homeowner [3]	
		Mean	Median	Mean	Median		Mean	Median
Under 25	81	$1,970	$600	$2,650	$750	10	$18,870	$13,780
25 to 34	87	4,270	1,200	7,960	1,510	40	32,640	27,770
35 to 44	91	8,910	3,000	14,410	3,750	66	52,070	40,600
45 to 54	89	14,830	3,310	23,010	4,130	75	64,470	50,000
55 to 64	91	25,440	7,430	54,950	9,340	73	73,580	55,000
65 to 74	88	30,670	9,680	65,340	11,400	69	63,670	45,000
75 and over	86	26,480	7,890	37,060	10,350	57	47,760	40,000
45 and over:								
Head in labor force	93	20,960	6,230	42,790	8,200	76	68,390	53,770
Head retired	86	28,200	6,730	50,170	8,750	69	62,460	44,170

[1] Liquid assets include checking accounts, savings accounts, money market accounts, certificates of deposit, IRA and Keogh accounts, and savings bonds.

[2] Financial assets include liquid assets plus stocks, other bonds, nontaxable holdings (municipal bonds and shares in certain mutual funds), and trusts.

[3] Nonfarm homeowners.

Source: Economic Report of the President, 1985, page 169. Data supplied by Board of Governors of the Federal Reserve System.

TABLE 22.—HOUSING TENURE OF AGED, FAMILIES, AND UNRELATED INDIVIDUALS BY FAMILY TYPE AND POVERTY STATUS, 1985

	Total (in thousands)	Percent of total				
		Own housing	No cash rent	Rent housing		
				Total	Publicly supported	Not publicly supported
Any member age 65 or over:						
In families:						
Total	11,947	85.2	1.4	13.5	2.0	11.5
Poor	854	71.5	2.7	25.8	6.2	19.6
Nonpoor	11,094	86.2	1.3	12.5	1.6	10.9
Unrelated individuals:						
Total	8,923	61.0	3.2	35.8	12.0	23.8
Poor	2,281	51.5	5.4	43.0	19.7	23.3
Nonpoor	6,642	64.2	2.4	33.4	9.4	24.0

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

Economic Status of the Newly Retired

Tables 23 through 26 provide information on the economic status of the newly retired. Data for these tables are taken from the Social Security Administration's New Beneficiary Survey of 1982. New retirees in 1982 had their prime earning years during the relatively affluent decades of the 1950's, 1960's, and 1970's. Compared with those who retired in the 1960's and 1970's, the 1982 retirees have enjoyed higher earnings which has allowed them to save more and retire earlier. Generally they have experienced greater pension coverage and report a better general level of health.

Table 23 shows the percent of new retired workers receiving income from 4 major income sources and the median monthly income from those sources for those receiving such income. A relatively high proportion of the new retirees had income from pensions (56 percent of the married men and their wives and 42 percent of the unmarried persons). A large fraction had income from earnings (44 percent of the married men and their wives and 27 percent of the unmarried persons).[4]

Tables 25 and 26 report on the health status of new retirees. About two-thirds of the people receiving a first Social Security retired worker benefit between June 1980 and May 1981 reported in late 1982 that they had no health related work limitation. Approximately half the remaining beneficiaries (18 percent of the total) reported they were unable to work at all. Those receiving their first Social Security benefit at age 62 were more likely to report on in-

[4] For further information on the incomes of new retirees see the January, May, and July 1985 issues of the Social Security Bulletin.

ability to work than those first receiving them at older ages. Since 1969, the proportion of newly retired men reporting no health related work limitations has increased by a third (from 45 percent in 1969 to 63 percent in 1982). However, the proportion reporting they are unable to work at all has remained constant at 18 percent over this period. 1969 data on the health of women retired workers are not available.[5]

TABLE 23.—1982 MONTHLY INCOME FROM MAJOR INCOME SOURCES FOR PERSONS WHO FIRST RECEIVED SOCIAL SECURITY RETIRED WORKER BENEFITS BETWEEN JUNE 1980 AND MAY 1981

	Percent receiving	Median monthly income (for recipients)
Married men and their wives:		
Social Security	98.3	$646
Earnings	43.7	617
Pensions	55.8	490
Asset income	83.0	180
Total income	100.0	1,511
Total number (thousands)	580.0	.....
Unmarried men and women:		
Social Security	97.0	421
Earnings	27.0	392
Pensions	42.4	291
Asset income	69.1	99
Total income	100.0	775
Total number (thousands)	295.9	.....

Source: Social Security Administration's New Beneficiary Survey, 1982.

Table 24 shows the percent of retired workers with home equity and with financial assets, and their median values. About 9 out of 10 of the married couples had these assets. Fewer, though still a large majority, of the unmarried retirees had some financial assets. Just under half of unmarried men and nearly 60 percent of the unmarried women had equity in an owned home. Home equity provided the major portion of the asset portfolios of retirees. The median value of the total portfolios, when home equity was excluded, was $20,000 for married men, $15,700 for married women, $3,500 for unmarried men, and $5,100 for unmarried women.

[5] For further information on the health status of new retirees see Packard, Social Security Bulletin, February 1985.

TABLE 24.—ASSET HOLDINGS IN 1982 OF RETIRED-WORKER BENEFICIARIES WHO FIRST RECEIVED A BENEFIT BETWEEN JUNE 1980 AND MAY 1981

	Married retirees and their spouses		Unmarried retirees	
	Men	Women	Men	Women
Home equity:				
Percent with any	87	88	48	58
Median amount	$48,000	$45,000	$35,000	$38,000
Financial assets:				
Percent with any	93	93	76	86
Median amount	$18,000	$14,800	$8,800	$7,500
Median value of asset portfolio for all:				
Including home equity	$68,300	$64,700	$17,000	$30,100
Excluding home equity	20,000	15,700	3,500	5,100

Source: Sally R. Sherman, "Assets of New Retired-Worker Beneficiaries: Findings From the New Beneficiary Survey," Social Security Bulletin, July 1985, Vol. 48, No. 7.

TABLE 25.—PERCENT OF NEW RETIRED WORKER BENEFICIARIES REPORTING HEALTH RELATED WORK LIMITATIONS BY AGE AT FIRST BENEFIT RECEIPT, 1982

	Men			Women		
	Total	Age 62	Age 63 or older	Total	Age 62	Age 63 or older
Total percent	100	100	100	100	100	100
No work limitation	64	57	70	69	66	73
Some work limitation	18	21	16	13	14	12
Unable to work	18	22	14	18	20	15

Source: Social Security Administration's New Beneficiary Survey, 1982.

TABLE 26.—PERCENT OF NEWLY RETIRED MEN REPORTING HEALTH RELATED WORK LIMITATIONS BY AGE AT FIRST BENEFIT RECEIPT, 1969 AND 1982

	1969			1982		
	Total	Age 62	Age 63 to 64	Total	Age 62	Age 63 to 64
Total percent	100	100	100	100	100	100
No work limitation	45	39	53	63	57	69
Some work limitation	31	33	28	19	21	17
Unable to work	19	22	14	18	22	13
Nonresponse	5	7	4	0	0	0

Sources: Social Security Administration's Survey of Newly Entitled Beneficiaries, 1968–70 and New Beneficiary Survey, 1982.

Economic Status of New Disabled-Worker Beneficiaries

Tables 27 and 28 provide information on the economic status of the newly disabled. The data are from The New Beneficiary Survey, conducted by the Social Security Administration in 1982. For the disabled, income includes that received by a spouse and by children under age 19, if present in the household.

Table 27 shows the percent of disabled-worker beneficiaries who received income from 4 major income sources—social security, earnings, pensions and assets. Few of the unmarried disabled had any earnings (6 percent), whereas the presence of a spouse accounts for the high proportions (44 percent and 54 percent) of the married disabled who had earnings. Income from assets was received by about 60 percent of the married couples, but by less than 30 percent of the unmarried men and less than 40 percent of the unmarried women. The median total monthly income was about $1,300 for the couples and just under $500 for the unmarried. These are roughly half the median total incomes of couples and unmarried persons aged 25–64 in the total noninstitutionalized population.

Table 28 shows the value of the assets held by the disabled and their spouses, if present. Aside from equity in an owned home, the disabled did not have large asset holdings. Older married men, the largest subgroup among the disabled, were the most well-off, though when home equity was excluded, the median value of their asset portfolio was $3,600.

TABLE 27.—SOURCES OF INCOME AND MEDIAN TOTAL MONTHLY INCOME FOR DISABLED-WORKER BENEFICIARIES [1] THEIR SPOUSES AND CHILDREN UNDER AGE 19, BY SEX AND MARITAL STATUS OF THE DISABLED WORKER, 1982

	Married men	Married women	Unmarried men	Unmarried women
Percent receiving:				
Social security	99.5	99.6	98.9	99.2
Earnings	43.6	53.9	6.8	5.7
Pensions	42.1	37.5	18.4	23.4
Asset income	60.3	59.3	28.9	39.1
Median monthly income	$1,230	$1,360	$490	$460

[1] For beneficiaries who first received a benefit between July 1980 and June 1981.

Source: Michael D. Packard, "Income of New Disabled-Worker Beneficiaries and Their Families: Findings from the New Beneficiary Survey," article to be published in the Social Security Bulletin.

TABLE 28.—ASSET HOLDINGS IN 1982 OF DISABLED-WORKER BENEFICIARIES WHO FIRST RECEIVED BENEFITS BETWEEN JULY 1980 AND JUNE 1981

	Disabled men		Disabled women	
	Under 55	55–64	Under 55	55–64
MARRIED DISABLED WORKERS AND THEIR SPOUSES				
Home equity:				
Percent with any	75	83	78	85
Median amount	$28,000	$38,000	$29,000	$35,000
Financial assets:				
Percent with any	77	86	78	84
Median amount	$700	$5,000	$1,100	$4,000
Median value of asset portfolio for all:				
Including home equity	$23,000	$41,000	$25,800	$37,000
Excluding home equity	300	3,600	700	2,100
UNMARRIED DISABLED WORKERS				
Home equity:				
Percent with any	16	30	31	48
Median amount	$15,000	$28,000	$23,000	$25,000
Financial assets:				
Percent with any	50	57	60	73
Median amount	$200	$800	$200	$600
Median value of asset portfolio for all:				
Including home equity		$200	$200	$6,300
Excluding home equity				200

Source: Martynas A. Ycas, "Asset Holdings of the Newly Disabled: Findings from the New Beneficiary Survey," Social Security Bulletin, December 1986, Vol. 49, No. 12.

Analysis of Various Deficit Reduction Options

Table 29 presents a summary of the distributional impact on beneficiaries by income, of seven deficit reduction options affecting the elderly and the disabled.

Columns 1 through 5 estimate the distribution of the effects a specific change would have on beneficiaries in different income classes. For instance, the table shows that 11 percent of the savings (burden) achieved from a medicare part B premium increase would be drawn from beneficiaries whose total income is below the poverty line. By comparison, this same group would bear zero percent of the burden imposed by eliminating the income thresholds ($25,000 for an individual, $32,000 for a couple) that determine income tax liability for social security and railroad retirement benefits.

The first category of proposals would mainly affect the Medicare program. The first option would increase the Supplemental Medical Insurance (SMI) premium to a level where beneficiary contributions would finance 35 percent of program costs. The second option would increase the SMI premium to finance 30 percent of program costs, and increase the SMI deductible to $200, with future increases indexed to the CPI. The third option would introduce an income-related premium by imposing a 1 percent surtax on SMI enrollees, with new tax liability not to exceed the subsidy value of SMI benefits.

The second category of options contains four revenue proposals. The first option would eliminate the income thresholds that determine whether social security or railroad retirement benefits are taxable (the portion of benefits subject to tax would remain 50 percent). The second option would retain the thresholds, but tax up to 85 percent of social security and railroad retirement benefits. The third option would lower the thresholds to $20,000 for individuals and $25,000 for couples, and tax 85 percent of benefits. The last option would tax Medicare beneficiaries on 50 percent of the insurance value of Hospital Insurance and 75 percent of the value of SMI benefits.

TABLE 29.—SUMMARY OF AMOUNTS AND SOURCES OF SAVINGS DERIVED FROM SELECTED DEFICIT REDUCTION OPTIONS

Option [1]	Distribution of effects on recipients in 1983 (in percent)				
	Poor [2]	100–125 percent of poverty line	126–200 percent of poverty line	201–300 percent of poverty line	Over 300 percent of poverty line
Medicare options:					
Increase SMI premium to 35 percent of costs [3]	11	8	23	23	36
Increase SMI premium to 30 percent of costs and increase deductible [3]	11	8	23	23	36
Introduce an income-related SMI premium	([4])	([4])	1	7	92
Taxation options:					
Eliminate thresholds for inclusion of benefits in adjusted gross income	([4])	([4])	7	28	65
Include up to 85 percent of benefits above threshold in AGI	0	0	0	([4])	100
Lower the thresholds and increase percent of benefit included in AGI	0	0	([4])	1	99
Include 50 percent of value of HI and 75 percent of SMI in AGI	([4])	([4])	4	18	77

[1] See text of the CBO report for definitions of options. In the study, the assumed effective date is Jan. 1, 1986, in most cases. The distribution of savings are not significantly impacted with a later date.

[2] Poor families are those with income below Census poverty thresholds.

[3] The distribution of effects of these options are identical because it is assumed that per capita deductible expenditures do not vary by income group.

[4] Less than 0.5 percent.

Note: Budgetary savings based on CBO baseline; distribution of savings based on tabulations of the March 1984 Current Population Survey, which reports incomes for calendar year 1983. See text of the CBO report for more detail and cautions in interpreting the findings.

Source: Congressional Budget Office, "An Analysis of Selected Deficit Reduction Options Affecting the Elderly and Disabled," staff working paper, March 1985.

Section 4. Medicare

Medicare, authorized under title XVIII of the Social Security Act, is a nationwide health insurance program for the aged and certain disabled persons. It consists of two parts: the hospital insurance (part A) program and the supplementary medical insurance (part B) program.

Eligibility

Most Americans age 65 or older are automatically entitled to protection under part A. Persons age 65 or older who are not "fully insured" (i.e., not eligible for monthly social security or railroad retirement cash benefits) may obtain coverage, providing they pay the full actuarial cost of such coverage. The monthly premium, as of January 1, 1987, is $226. Also eligible, after a 2-year waiting period, are people under age 65 who are receiving monthly social security benefits on the basis of disability and disabled railroad retirement system annuitants. (Dependents of the disabled are not eligible.) Most people who need a kidney transplant or renal dialysis because of chronic kidney disease are, under certain circumstances, entitled to benefits under part A regardless of age.

Part B of Medicare is voluntary. All persons age 65 or older (whether "insured" or not) may elect to enroll in the supplementary medical insurance program by paying the monthly premium. Persons eligible for part A by virtue of disability or chronic kidney disease may also elect to enroll in part B. The premium, as of January 1, 1987, is $17.90.

Number of Beneficiaries

In fiscal year 1987, approximately 28.4 million aged and 3.0 million disabled will have protection under part A. Of those, it is estimated that 6.5 million aged and 0.7 million disabled will actually receive reimbursed services. In fiscal year 1987, 28.3 million aged and 2.7 million disabled will be enrolled in part B. Over 21.9 million of the aged and 2.0 million of the disabled will receive part B reimbursed services.

TABLE 1.—NUMBER OF AGED AND DISABLED ELIGIBLE ENROLLEES AND BENEFICIARIES AND AVERAGE AND TOTAL MEDICARE BENEFIT PAYMENTS

[Persons in thousands]

	1980 (actual)	1985 (actual)	1987 [1] (estimate)	1988 [1] (estimate)	Projected average annual growth 1980–88
Part A:					
Persons with hospital insurance protection (monthly average):					
Aged	24,572	27,203	28,449	29,032	2.3
Disabled	2,959	2,906	2,951	2,966	—.1
Beneficiaries receiving reimbursed services:					
Aged	5,943	6,430	6,540	6,710	2.2
Disabled	737	745	745	750	.2
Average annual benefit per person enrolled: [2]					
Aged	$853	$1,560	$1,477	$1,580	10.5
Disabled	$951	$1,861	$1,778	$1,900	12.2
Total benefit payments per beneficiary reimbursed:					
Aged	$3,527	$6,599	$6,426	$6,838	10.8
Disabled	$3,817	$7,260	$7,043	$7,515	11.1
Part B:					
Beneficiaries:					
Persons enrolled (average):					
Aged	24,410	27,110	28,328	28,886	2.2
Disabled	2,703	2,671	2,713	2,731	1.1
Beneficiaries receiving reimbursed services:					
Aged	15,525	19,350	21,905	22,582	4.9
Disabled	1,737	1,877	1,998	2,011	3.5
Average *ERR97*annual benefit per person enrolled: [2]					
Aged	$349	$686	$904	$1,015	15.3
Disabled	$604	$1,094	$1,227	$1,363	11.3
Total benefit payments per beneficiary reimbursed:					
Aged	$548	$961	$1,169	$1,298	12.3
Disabled	$940	$1,714	$1,666	$1,851	9.1

[1] Represents current law. Includes Administration regulations but not the legislative proposals.
[2] Does not include administrative cost.

Source: Health Care Financing Administration.

COVERAGE

Most individuals establish entitlement to part A on the basis of work in employment covered by either the Social Security or rail-

road retirement systems. Certain employment is excluded from Social Security (including part A hospital insurance) taxation.

The Tax Equity and Fiscal Responsibility Act of 1982 extended the hospital insurance tax to Federal employment effective with respect to wages paid on or after January 1, 1983. For calendar year 1987, the tax will be 1.45 percent of wages up to $43,800. Beginning January 1, 1983, Federal employment is used to determine eligibility for protection under Medicare part A. A transitional provision allows individuals who are in the employ of the Federal Government both before and during January 1, 1983, to have their prior Federal employment considered as employment for purposes of providing Medicare coverage. Newly hired employees of state and local governments hired after March 31, 1986, are liable for the HI tax.

Benefits

Part A of Medicare will pay for:

1. Inpatient hospital care.—All reasonable expenses for the first 60 days minus a deductible ($520 in calendar year 1987) in each benefit period. For days 61-90, a coinsurance amount ($130 in calendar year 1987) is deducted. When more than 90 days are required in a benefit period, a patient may elect to draw upon a 60 day lifetime reserve. A coinsurance amount ($260 in calendar year 1987) is also deducted for each reserve day.

2. Skilled nursing facility care.—Up to 100 days (following hospitalization) in a skilled nursing facility for persons in need of continued skilled nursing care and/or skilled rehabilitation services on a daily basis. After the first 20 days, there is a daily coinsurance amount deducted ($65.00 in calendar year 1987).

3. Home health care.—An unlimited number of medically necessary home health visits by nurses, therapists, and other health workers for a homebound individual.

4. Hospice care.—Hospice care services provided to terminally ill Medicare beneficiaries with a life expectancy of 6 months or less.

Part B of Medicare pays 80 percent of the reasonable charges (or of reasonable cost) for covered services in excess of an annual deductible ($75). Services covered include the following:

1. Doctor's services.—Including surgery, consultation, and home, office and institutional visits. Certain limitations apply for services rendered by dentists, podiatrists and chiropractors and for the treatment of mental illness.

2. Other medical and health services.—Laboratory and other diagnostic tests, X-ray and other radiation therapy, outpatient services at a hospital, rural health clinic services, home dialysis supplies and equipment, artificial devices (other than dental), physical and speech therapy, and ambulance services.

3. Home health services.—Unlimited number of medically necessary home health visits for persons not covered under part A. The 20 percent coinsurance and $75 deductible do not apply for such benefits.

Table 3 illustrates the deductible, coinsurance and premium amounts for both part A and part B services from the inception of Medicare.

TABLE 2.—BENEFIT PAYMENTS BY SERVICE UNDER PART A AND PART B, FISCAL YEARS 1978, 1983, AND 1988

[Dollars in millions]

	1978 payments (actual)		1983 payments (actual)		1988 payments [1] (estimate)		Projected average annual growth (1978–88)
	Amount	Percent	Amount	Percent	Amount	Percent	
Part A							
For inpatient hospital services	$16,685	68.8	36,079	64.9	47,565	56.3	11.8
For skilled nursing facility services	353	1.5	507	0.9	695	0.8	6.5
For home health services	361	1.5	1,576	2.7	3,171	3.7	25.0
For hospice services	0	0	0	0	90	0.1	.....
Total benefit payments	17,399	71.8	38,102	68.5	51,521	60.9	12.2
Part B							
For physician services	954	20.4	12,769	23.0	23,836	28.2	17.0
For radiology and pathology services	373	1.5	730	1.3	.....	.....	10.8
For outpatient services	1,105	4.6	3,346	6.0	7,364	8.7	20.6
For other medical and health services	420	1.7	642	1.2	1,841	2.2	17.9
Total benefit payments	6,852	28.2	17,487	31.5	33,041	39.1	17.1
Total	24,251	100.0	55,589	100.0	84,562	100.0	13.7

[1] Represents current law. Includes Administration regulations but not the legislative proposals. Also includes funding for the peer review organizations.

Source: Health Financing Administration.

TABLE 3.—HISTORICAL AND PROJECTED AMOUNTS OF PART A (HOSPITAL INSURANCE) AND PART B (SMI) DEDUCTIBLE, COINSURANCE AND PREMIUMS [1]

For benefit periods begining in	Inpatient hospital [2]			Skilled nursing facility 21st thru 100th day coinsurance per day [5]	HI monthy premium [6]		SMI deductible	SMI premium	
	First 60 days deductible	61st thru 90th day coinsurance per day [3]	60 lifetime reserve days (nonrenewable) coinsurance per day [4]		Effective date	Amount		Effective date	Amount
1966	$40	$10	([7])	([7])	.....	.....	$50	7/66	$3.00
1967	40	10	([7])	$5.00	.....	.....	50	.....	3.00
1968	40	10	$20	5.00	.....	.....	50	4/68	4.00
1969	44	11	22	5.50	.....	.....	50	.....	4.00
1970	52	13	26	6.50	.....	.....	50	7/70	5.30
1971	60	15	30	7.50	.....	.....	50	7/71	5.60
1972	68	17	34	8.50	.....	.....	50	7/72	5.80
1973	72	18	36	9.00	7/73	$33	60	[8] 9/73	6.30
1974	84	21	42	10.50	7/74	36	60	7/74	6.70
1975	92	23	46	11.50	7/75	40	60	.....	6.70
1976	104	26	52	13.00	7/76	45	60	7/76	7.20
1977	124	31	62	15.50	7/77	54	60	7/77	7.70
1978	144	36	72	18.00	7/78	63	60	7/78	8.20
1979	160	40	80	20.00	7/79	69	60	7/79	8.70
1980	180	45	90	22.50	7/80	78	60	7/80	9.60
1981	204	51	102	25.50	7/81	89	60	7/81	11.00
1982	260	65	130	32.50	7/82	113	75	7/82	12.20
1983	304	76	152	38.00	.....	113	75	.....	12.20
1984	356	89	178	44.50	1/84	155	75	1/84	14.60

1985	400	100	200	50.00	1/85	174	75	1/85	15.50
1986	492	123	246	61.50	1/86	214	75	1/86	15.50
1987	520	130	260	65.00	1/87	226	75	1/87	17.90
1988 [9]	536	134	268	67.00	1/88	233	75	1/88	22.80
1989 [9]	552	138	276	69.00	1/89	240	75	1/89	23.60
1990 [9]	568	142	284	71.00	1/90	247	75	1/90	24.40
1991 [9]	584	146	292	73.00	1/91	254	75	1/91	25.30
1992 [9]	600	150	300	75.00	1/92	261	75	1/92	26.10

[1] For services furnished on or after January 1, 1982, the coinsurance amounts are based on the inpatient hospital deductible for the year in which the services were furnished. For services furnished prior to January 1, 1982, the coinsurance amounts are based on the inpatient hospital deductible applicable for the year in which the individual's benefit period began.

[2] For care in psychiatric hospital—190 day lifetime limit.

[3] Always equal to ¼ of inpatient hospital deductible.

[4] Always equal to ½ of inpatient hospital deductible.

[5] Always equal to ⅛ of inpatient hospital deductible.

[6] Not applicable prior to July 1973. Applies to individuals who are not fully insured.

[7] Not covered.

[8] For August 1973 the premium was $6.10.

[9] Administration projections under fiscal year 1988 budget assumptions.

Note: In addition to the deductible and coinsurance amounts shown in the table, the first 3 pints of blood are not reimbursed by Medicare. Currently there is no deductible or coinsurance on home health benefits. From January 1973 to June 30, 1982, there was a $60 annual deductible and prior to July 1, 1981, benefits were limited to 100 visits per benefit period under part A and 100 visits per calendar year under part B. Special limits apply to certain benefits: (1) Outpatient physician services for mental illness: 50 percent of approved charges; up to a maximum of $250 in benefits per year; (2) Physical therapy services furnished by physical therapists in independent practice: Maximum annual approved charges July 1, 1973, through December 31, 1981, $80 per year; January 1, 1982 through December 31, 1982, $400 per year, and January 1, 1983 and thereafter, $500 per year.

Source: Health Care Financing Administration, Office of the Actuary.

ADMINISTRATION

Responsibility for administration of the Medicare program has been delegated by the Secretary of Health and Human Services to the Administrator of the Health Care Financing Administration (HCFA). Much of the day-to-day operational work of the program is performed by "intermediaries" and "carriers" which have responsibility for reviewing claims for benefits and making payments.

In general, hospitals and other providers paid under part A of Medicare can nominate, subject to HCFA's approval, a national, State, or other public or private agency to serve as a fiscal intermediary between themselves and the Federal Government.

The Secretary enters into contracts with insurance organizations to serve as carriers. The carrier must perform its obligations under the contract efficiently and effectively and must meet such requirements as to financial responsibility, legal authority, and other matters as the Secretary finds pertinent. The carrier must ensure that payments made to providers under part B on a reasonable cost or reasonable charge basis (as may be applicable) are reasonable.

Medicare administrative costs amount to approximately 2.5 percent of program outlays.

Hospitals

The Social Security Amendments of 1983 (Public Law 98-21) altered the way in which Medicare pays hospitals. From the inception of the program, Medicare had paid hospitals on a "reasonable cost" basis. Effective October 1, 1983, Medicare began paying under a prospective payment system. Medicare payments for inpatient operating costs of hospitals are determined in advance and made on a per discharge basis. A fixed amount per case is paid based upon the type of case or "diagnosis-related group" (DRG) into which the case is classified.

The payment system is not applied to capital-related costs nor to direct medical education costs. These expenses continue to be reimbursed on a reasonable cost basis. Capital costs may no longer be excluded from the system beginning October 1, 1987. Certain hospitals excluded from the system are: psychiatric, long-term care, children's and rehabilitation hospitals. Excluded hospitals continue to be paid based on reasonable costs subject to certain rate of increase limitations.

Additional payments are made for extraordinarily costly cases, for the indirect costs of medical education, and for hospitals serving a disproportionate share of low income patients. An adjustment is made for the wage level in the area in which the hospital is located. In addition, there are certain other exceptions and adjustments including those for sole community providers, national and regional referral centers, and cancer treatment centers.

The payment system will be phased in over 4 years from payments based on an individual hospital's historical costs to payments based on the new prospective payment rates. In addition, the system will be phased in from payments representing nine regional payment levels to one national payment level for each DRG. There will be separate payment levels for urban and rural areas.

Hospitals and other institutional providers receiving payment under Medicare part A submit bills on behalf of the beneficiary and agree to accept the program's payment as payment in full. In general, providers are permitted to charge beneficiaries only the deductible and coinsurance amounts authorized by law.

Physicians

Medicare part B provides insurance coverage for physician services and for certain services provided by other noninstitutional providers. To be entitled to benefits under Medicare part B, individuals eligible for hospital benefits under part A must enroll in part B and pay a monthly premium.

Payments are made for services covered under part B after an annual deductible requirement of $75 has been satisfied. Payment is set at 80 percent of the Medicare approved "reasonable" charge. Beneficiaries are responsible for the remaining 20 percent as coinsurance.

For physicians' services, the Medicare approved reasonable charge is limited to the lowest of the following amounts: (1) the physician's actual charge for the service; (2) the physician's customary charge for the service; or (3) the prevailing charge for the service as provided by physicians in a particular locality. Since 1973, annual increases in prevailing charge levels have been limited by the Medicare Economic Index (MEI). The index reflects year-to-year changes in general wage levels and physician practice costs. Customary and prevailing charge screens generally are updated every year. However, payments were temporarily frozen from July 1, 1984 to December 31, 1986.

In limited situations, the Secretary of Health and Human Services may make an adjustment in payment levels if he determines that application of the standard payment methodology results in a payment level that is not "inherently reasonable." Standards and procedures for application of the inherent reasonableness authority are specified by statute. Based on similar considerations, Congress has required a reduction in payment for cataract surgery and related anesthesia services effective January 1, 1987.

Medicare payment is made either on an "assigned" or "unassigned" basis. By accepting assignment, physicians agree to accept the Medicare approved charge as payment-in-full. Thus, if assignment is accepted, beneficiaries are not liable for any out-of-pocket costs other than standard deductible and coinsurance payments. In contrast, if assignment is not accepted, beneficiaries may be liable for charges in excess of the Medicare approved charge.

Medicare's participating physician program was established in 1984 to provide beneficiaries with the opportunity to select a physician who has agreed to accept assignment on all services provided during a 12-month period. Nonparticipating physicians continue to be able to accept or refuse assignment on a claim-by-claim basis. A number of incentives are provided to encourage physicians to sign participation agreements. These include: higher prevailing charge screens, more rapid claims payment, and wide-spread distribution of participating physician directories.

To ensure that limitations on Medicare payments do not result in higher out-of-pocket costs for beneficiaries, the actual charges of

nonparticipating physicians are limited during a 4-year period beginning on January 1, 1987. Under the maximum allowable actual charge (MAAC) limits, nonparticipating physicians with actual charges in excess of 115 percent of the prevailing charge are limited to a 1 percent a year increase in their actual charges. Nonparticipating physicians with lower actual charges may increase their charges at a more rapid rate. (Additional information concerning physician payment is included in the appendix.)

The following table shows the number of participating institutions and organizations.

TABLE 4.—PARTICIPATING INSTITUTIONS AND ORGANIZATIONS (JUNE 1986)

Hospitals	6,720
Short stay	5,994
Long stay	726
Skilled nursing facilities	6,897
Home health agencies	5,978
Independent laboratories	4,138
Outpatient physical therapy providers	907
Portable X-ray suppliers	347
Rural health clinics	432
Comprehensive outpatient rehabilitation facilities	96
Ambulatory surgical centers	574
Hospices	268
Facilities providing services to renal disease beneficiaries	1,516
Hospitals certified as both renal transplant and renal dialysis centers	146
Hospitals certified as renal transplant centers	31
Hospital dialysis facilities	135
Non-hospital renal dialysis facilities	802
Dialysis centers only	352
Inpatient care	50

HOSPITAL AND SKILLED NURSING FACILITY BEDS (JUNE 1986)

Hospitals	1,145,966
Short stay	1,026,090
Long stay	119,876
Skilled nursing facilities	[1] 448,910

[1] As of January 1986. Participating Medicare—Only.

Source: Health Care Financing Administration.

End Stage Renal Disease Program

In 1972, Public Law 92–603 was signed extending Medicare coverage for certain individuals with chronic renal failure. The Medicare program covers individuals, under age 65, who suffer from end stage renal disease, if they are (1) fully insured for old age and survivor insurance benefits, or (2) are entitled to either monthly social security benefits, or (3) are spouses or dependents of individuals described in (2). Such persons must be medically determined to be suffering from end stage renal disease and must file an application for benefits. Approximately 7 percent of the population suffering

from end stage renal disease (ESRD) does not meet any of these requirements and thus are not covered for Medicare renal benefits.

Benefits for qualified end stage renal disease beneficiaries include all part A (hospital insurance) and part B (supplementary medical insurance) medical items and services. ESRD beneficiaries are automatically enrolled in the part B portion of Medicare and must pay the monthly premium for such protection.

Table 5 shows program expenditures, number of beneficiaries, and the average expenditure per person from 1974 to projected expenditures and beneficiaries through 1992. Total projected program expenditures for Medicare end stage renal disease program for fiscal year 1988 amount to $2.5 billion. In fiscal year 1988, there are projected to be 115,000 ESRD beneficiaries including successful transplant patients.

TABLE 5.—ESRD MEDICARE BENEFICIARIES AND PROGRAM EXPENDITURES

[Dollars in millions]

Year	Expenditures	Beneficiaries	Per person
1974	$229	15,993	$14,300
1975	361	22,674	15,900
1976	512	28,941	17,700
1977	641	35,889	17,900
1978	800	43,482	18,400
1979	1,010	52,636	19,200
1980	1,250	60,814	20,600
1981	1,472	68,288	21,500
1982	1,650	75,097	22,000
1983	1,889	81,873	23,100
1984	2,100	87,000	24,200
1985	2,300	92,000	25,400
1986	2,099	104,000	20,181
1987	2,238	110,000	20,346
1988	2,455	115,000	21,344
1989	2,656	120,000	22,130
1990	2,835	124,000	22,864
1991	3,024	129,000	23,439
1992	3,167	132,000	23,995

Note: Projections for 1985–92 are subject to revision by the Office of Financial and Actuarial Analysis; projections for 1986–92 are under the FY 1988 budget assumptions.

Source: Office of Financial and Actuarial Analysis, Health Care Financing Administration, Department of Health and Human Services.

Outpatient maintenance dialysis can be provided in either a hospital-based setting or independent (often called freestanding) setting.

Until 1983, payment for maintenance dialysis under Medicare had been based on cost-based principles in the case of outpatient dialysis care furnished by hospitals and on the basis of "reasona-

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ble" or allowed charges in the case of services provided by independent (or freestanding) dialysis treatment facilities.

In 1981, the Congress passed Public Law 97-35 which required the Secretary to establish dual, or separately calculated, prospective rates for hospital-based and for freestanding facilities. Congress expressed a preference that these formulas be composite in nature, that is, they take into account the proportions of hospital-based and independent facility patients dialyzing at home and the relative costs of providing dialysis at home and in the facility setting.

Under the regulations in effect prior to October 1, 1986, before any exceptions are taken into account, the average (base) payment rate under the prospective payment system was $127 per treatment for independent facilities and $131 per treatment for hospital units, regardless of whether the treatment is furnished in the facility or in the patient's home. Public Law 99-509 provided, effective October 1, 1986, that payment rates were to be reduced to $125 and $129 respectively. The Secretary must maintain the reduced rates for 2 years but is authorized to change the rates thereafter. The exception process was also liberalized. The payment rates are adjusted by an area wage index to take into account differences in the local labor costs of dialysis facilities so that the actual payment rates (without any adjustments for exceptions) may vary above and below the average payment rates established for hospital-based and independent dialysis units. The new prospective payment system was implemented as of August 1, 1983.

Kidney transplants are covered for Medicare beneficiaries. The costs incurred by the kidney donor are reimbursed by Medicare even if the donor is not a Medicare beneficiary. Medicare reimburses more than 90 percent of the kidney transplants performed in the United States. Table 6 shows the numbers of transplants performed in Medicare-certified hospitals.

TABLE 6.—TOTAL KIDNEY TRANSPLANTS PERFORMED IN MEDICARE CERTIFIED U.S. HOSPITALS

Calendar year	Total transplants	Living donor		Cadaveric donor	
		Number	Percent	Number	Percent
1979	4,189	1,186	28	3,003	72
1980	4,697	1,275	27	3,422	73
1981	4,883	1,458	30	3,425	70
1982	5,358	1,677	31	3,681	69
1983	6,112	1,784	29	4,328	71
1984	6,968	1,704	24	5,364	76
1985	7,695	1,876	24	5,819	76

Home Health

The hospital insurance (part A) and the supplementary medical insurance (part B) programs cover home health services without a

deductible or coinsurance charge. There is no limitation on the number of home health visits covered under the home health program, and there is no prior hospitalization requirement. When an individual is covered under parts A and B of the Medicare program, the individual will generally receive payment for home health services under part A of the program.

Reimbursement to home health agencies is based on Medicare rules for reasonable cost reimbursement. However, home health agencies are required to use the cost per visit by type of service for apportioning costs. Under this method, the total allowable costs of all visits for each type of service (skilled nursing, home health aide, etc.) is divided by the total number of visits by type of service. These average cost per visit amounts are multiplied by the number of covered Medicare visits for each type of service. The products represent the cost Medicare will recognize by type of service, subject to home health agency cost limits.

Cost limits for home health agencies were set at the 75th percentile of average per visit costs. Though the limits were established by type of service, they were applied to each agency as a single aggregate limit based on the number of visits for each type of service.

Public Law 97-248 required the Secretary to establish a single reimbursement limit for home health agencies based on the cost experience of freestanding home health agencies. In establishing the single limits, the Secretary was required to make adjustments, as appropriate, for hospital-based home health agencies based on legitimate cost differences resulting from such factors as a more complex case mix and the effects of Medicare cost allocation requirements. The single limits were published on July 2, 1984. An "add on" for hospital based facilities was provided.

The Administration, in revised final regulations published on July 5, 1985, established the following home health visit methodology: For cost-reporting periods beginning on or after July 1, 1985, the limits are set at 120 percent of the mean and are applied separately to each type of service. For cost reporting periods beginning on or after July 1, 1986, the limits are reduced to 115 percent of the mean, and for visit reporting periods beginning on or after July 1, 1987, the limits are set at 112 percent of the mean.

However, in 1986, the Congress passed Public Law 99-509 which amended the Secretary's authority to establish limits for home health costs to require that limits again apply on an aggregate basis for all home health services, rather than on a discipline of specific basis, for cost reporting periods beginning on or after July 1, 1986.

The Medicare home health benefit is the fastest growing part of the Medicare program. Table 7 below indicates the increase in Medicare program expenditures for home health care.

TABLE 7.—TOTAL MEDICARE HOME HEALTH BENEFIT PAYMENTS

[Dollars in millions] [1]

	Reimbursements			Percent change	Visits per 1,000 enrollees [2]	Average charge per visit [2]
	Part A	Part B	Total			
1969	NA	NA	$81	.....	424	$10
1970	NA	NA	63	−22.7	291	12
1971	NA	NA	57	−8.8	226	13
1972	NA	NA	66	15.7	241	14
1973	NA	NA	93	40.9	265	15
1974	NA	NA	139	48.6	340	17
1975	NA	NA	215	551	431	20
1976	NA	NA	297	38.1	520	22
1977	NA	NA	371	24.9	597	25
1978	NA	NA	443	19.4	639	27
1979	NA	NA	542	22.4	717	30
1980	NA	NA	666	22.9	792	33
1981	NA	NA	860	29.1	902	36
1982	NA	NA	1,121	30.3	1,060	40
1983	NA	NA	1,425	27.1	1,252	43
1984	NA	NA	1,897	33.1	1,352	50
1985	NA	NA	2,290	20.7	1,432	54
1986	2,527	32	2,559	11.7	1,485	58
1987	2,878	36	2,914	13.9	1,557	60
1988	3,171	41	3,212	10.2	1,617	63
1989	3,519	46	3,565	11.0	1,664	67
1990	3,872	52	3,924	10.1	1,696	71
1991	4,235	58	4,293	9.4	1,725	75
1992	4,594	64	4,658	8.5	1,742	79

[1] Based on FY 1988 Budget Assumptions, supplied by HCFA, OMB.
[2] Based on Part A alone.
NA = Not available.

Source: HCFA/Bureau of Data Management and Statistics.

Hospice Care

Public Law 97-248 authorized Medicare part A coverage for hospice care services provided to individuals who are entitled to Medicare part A benefits and who are certified to be terminally ill. In 1986, the Congress in Public Law 99-272 made the hospice benefit a permanent part of the Medicare program effective April 7, 1986.

On December 16, 1983, the Health Care Financing Administration (HCFA), published regulations to implement the hospice provisions of Public Law 97-248. Among other things, the regulations establish requirements for eligibility, covered benefits, services, reim-

bursement procedures, and the conditions a hospice must meet to be approved for participation in the Medicare program.

Part A beneficiaries may elect to receive hospice care in lieu of most other Medicare benefits for up to two periods of 90 days each, plus an additional 30 days.

The statute provides that payment to hospice providers be equal to the costs which are reasonable and related to the cost of providing hospice care, or which are based on such other tests of reasonableness as the Secretary may prescribe, subject to a "cap amount." The cap amount for a beneficiary for a year was established at $6,500, adjusted annually by the Medical component of the CPI. The cap for fiscal year 1987 is $7,300.

HCFA has implemented a prospective payment methodology for hospice care. Under this methodology, hospices would be paid one of several predetermined rates for each day a Medicare beneficiary is under the care of the hospice. The rates would vary according to the level of care furnished to the beneficiary. Total reimbursement to a hospice for care furnished to the Medicare beneficiary would vary by the length of the patient's period in the hospice program as well as by the characteristics of the services (intensity and site) program furnished to the beneficiary.

The regulations established four basic payment categories. The payment rates are national rates which are adjusted by the Bureau of Labor Statistics wage index for an area. The published payment rates were:

(a) *Routine home care day.*—Routine home care day is a day on which an individual who has elected to receive hospice care is at home and is not receiving continuous home care. The routine home care rate would be paid for every day a patient is at home and under the care of the hospice regardless of the volume or intensity of the services provided on any given day as long as less than 8 hours of care are provided. Public Law 99-272 increased the national rate to $63.17.

(b) *Continuous home care day.*—A continuous home care day is a day on which an individual who has elected to receive hospice care receives hospice care consisting predominantly of nursing care on a continuous basis at home. Home health aide or homemaker services or both may also be provided on a continuous basis. Continuous home care is furnished only during brief periods of crisis and only as necessary to maintain the terminally ill patient at home. Home care would have to be provided for a period of at least 8 hours before it would be considered to fall within the category of continuous home care. Public Law 99-272 increased the national payment rate to $368.67.

(c) *Inpatient respite care day.*—An inpatient respite care day is one on which the individual who has elected hospice care receives care in an approved facility on a short-term (not more than 5 days at a time) basis for the respite of his caretakers. Public Law 99-272 increased the national payment rate to $65.33.

(d) *General inpatient care day.*—A general inpatient care day is one on which an individual who has elected hospice care receives general inpatient care in an inpatient facility for pain

control or acute or chronic symptom management which cannot be managed in other settings. Care may be provided in a hospital, skilled nursing facility or inpatient unit of a freestanding hospice. Public Law 99-272 increased the national payment rate to $281.00.

Public Law 98-617 also required the Secretary of HHS to review and adjust the hospice rates annually, beginning October 1, 1985. According to the Secretary, cost data were not available in order for the rates to be updated.

TABLE 8.—MEDICARE HOSPICE PROGRAM DATA

Period	Number of facilities	Number of admissions	Total dollars (in millions)	Reimbursement per admission
11/01/83-09/14/84	119	2,098	$3.5	$1,646
11/01/83-12/19/84	153	3,800	7.0	1,834
11/01/83-04/30/85	171	7,549	16.0	2,117
11/01/83-07/31/85	200	11,014	23.5	2,137
11/01/83-09/30/85	233	14,874	33.8	2,272
11/01/83-10/31/86	279	34,865	102.2	2,930

Data derived from Hospice Status Report, Health Care Financing Administration.

Skilled Nursing Facility

In general, skilled nursing facilities are reimbursed on the basis of reasonable costs subject to certain limits.

Reimbursement limits for skilled nursing facilities have been established for inpatient general routine service costs. Limits are set at 112 percent of the average labor-related and average non-labor related costs of each comparison group.

The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) required the Secretary to establish a single payment limit for both freestanding and hospital-based skilled nursing facilities (SNFs) based on the cost experience of freestanding facilities, subject to adjustments for hospital-based SNFs deemed appropriate. The provision was to be effective October 1, 1982. The Social Security Amendments of 1983 (Public Law 98-21) postponed the effective date for 1 year. This provision was further modified in Public Law 98-369 (the Deficit Reduction Act of 1984). The law provides that for cost reporting periods beginning on or after October 1, 1982, and prior to July 1, 1984, hospital-based facilities and freestanding facilities would be reimbursed on the same basis used to calculate reimbursement limits that had been in effect prior to the passage of the Tax Equity and Fiscal Responsibility Act (i.e., reverting to prior law). For cost reporting periods beginning on or after July 1, 1984, separate limits would continue to be established for freestanding facilities in urban and rural areas at 112 percent of the mean operating costs of urban and rural freestanding facilities, respectively. Limits for urban or rural hospital-based facilities would be set at the appropriate freestanding facility limit plus 50 percent of the difference between the freestanding facility limit

and 112 percent of the mean operating costs of hospital-based facilities. Adjustments to take into account administrative costs for hospital based facilities would be allowed as an add on. Final regulations were issued April 1, 1986.

In addition, Public Law 98–21 required the Secretary to report by December 31, 1983, on the effect of the implementation of the TEFRA single-rate provision on hospital-based SNFs, given the difference (if any) in the patient populations served by such facilities and by freestanding SNFs. Further, the Secretary was required to report by the end of 1983 on the impact of hospital prospective payment on SNFs. This report was received January 18, 1985.

Public Law 99–272 established a prospective payment rate system for certain SNFs that elect such payment for cost reporting periods beginning on or after October 1, 1986. SNFs providing less than 1,500 days of care per year to Medicare patients in the preceding year would have the option of being paid a prospective payment rate set at 105 percent of the regional mean for all SNFs in the region. The rate is to be separately calculated for urban and rural areas and the prospective per diem rate also is to reflect wage differences between urban and rural areas within each region. These rates cannot exceed the per diem cost limit that would otherwise be applicable to that facility and cannot exceed its cost limit adjusted for capital costs.

TABLE 9.—SKILLED NURSING FACILITY DATA

Fiscal year	Number of SNF facilities	Total covered days of care (thousands)	Total interim reimbursement (thousands)	Interim reimbursement per day
1977	4,461	9,757.7	314,149	32
1978	4,982	9,231.5	317,505	34
1979	5,055	8,643.7	329,498	38
1980	5,155	8,644.2	356,633	41
1981	5,295	8,581.2	390,408	45
1982	5,510	8,564.2	420,644	49
1983	5,760	9,100.3	458,854	50
1984	6,183	9,209.5	475,802	52
1985 [1]	6,725	8,070.4	457,400	57

[1] Data are considered preliminary.

Data derived from Medicare Statistical System (MSS), Current Utilization Series Table 8, 10/31/86 Update, BDMS.

Utilization and Quality Control Peer Review Program

The Social Security Amendments of 1972 provided for the establishment of Professional Standards Review Organizations (PSRO's) throughout the country which were charged with the comprehensive and on-going review of services provided under Medicare, Medicaid, and the maternal and child health programs. PSRO's determined, for purposes of reimbursement under these programs, whether services are: (1) Medically necessary, (2) provided in ac-

cordance with professional standards, and (3) in the case of institutional services, rendered in the appropriate setting.

The Tax Equity and Fiscal Responsibility Act of 1982 repealed the existing PSRO program and established a new program. Under this new program, a Peer Review Organization (PRO) is defined as an entity which is either composed of a substantial number of the licensed doctors of medicine and osteopathy practicing in the area or has available to it sufficient numbers of such physicians so that adequate peer review of various medical services can be assured.

The PRO program is similar to the PSRO program with the following important distinctions. Under the new program, eligible organizations may be either for-profit or non-profit and may be either physician groups or have available to them sufficient physicians to perform review. The Secretary is required to consolidate existing PSRO geographic areas. Each State has been designated as a single area, plus the District of Columbia, Puerto Rico, the Virgin Islands, Guam, and American Samoa (54 PRO's). The Secretary is required to enter into a contract with a peer review organization for each geographic area. Priority consideration must be given to physician-sponsored organizations; payor organizations were excluded from participation until October 1, 1984. Contracts with provider or provider-affiliated organizations are prohibited though subcontracts with such entities are permitted. As of January 1, 1985, the Secretary had entered into agreements with 53 physician-sponsored organizations and one fiscal intermediary. The law provides that contracts are for an initial period of 2 years, renewable biennially. Contracts with PRO's must specify objectives to be achieved for each PRO over the contract period. Performance will be rated in terms of meeting these goals.

These entities may review, subject to the provisions of the contracts, the professional activities of physicians, other practitioners and institutional and noninstitutional providers in rendering services to Medicare beneficiaries. The review is to focus on the necessity and reasonableness of care, quality of care, and the appropriateness of the setting. The determinations of the peer review organizations would ordinarily be binding for purposes of determining whether benefits should be paid.

States are authorized to contract with review organizations for Medicaid review and 75 percent Federal matching is authorized for such purpose.

Hospitals were required to sign an agreement with a PRO in the area on or before November 15, 1984, as a condition of receiving payment under the Medicare program.

FINANCING

Background

The Medicare part A Hospital Insurance Trust Fund (HI) finances inpatient hospital, skilled nursing facility, home health and other institutional services. The part B Supplementary Medical Insurance Trust Fund (SMI) finances principally physician and hospital outpatient services.

The Hospital Insurance Trust Fund is financed primarily through Social Security payroll tax contributions paid by employ-

ers, employees and the self-employed. The payroll tax rate for calendar year 1986 was 1.45 percent of earnings up to $42,000 per employee, and for 1987 it is 1.45 percent up to $43,800 per employee. An equal contribution rate is paid by the employer. Table 10 shows the contribution rates and maximum taxable earnings for both HI and the old-age, survivors and disability insurance (OASDI) programs.

TABLE 10.—CURRENT LAW SOCIAL SECURITY PAYROLL TAX RATES FOR EMPLOYERS AND EMPLOYEES EACH AND TAXABLE EARNINGS BASES

Calendar year	Employee and employer rates, each (percent)			Taxable earnings base	Maximum HI tax
	OASDI combined	HI	OASDHI combined		
1977	4.95	0.90	5.85	$16,500	$148.50
1978	5.05	1.10	6.05	17,700	194.70
1979	5.08	1.05	6.13	22,900	240.45
1980	5.08	1.05	6.13	25,900	271.95
1981	5.35	1.30	6.65	29,700	386.10
1982	5.40	1.30	6.70	32,400	421.20
1983	5.40	1.30	6.70	35,700	464.10
1984	5.70	1.30	7.00	37,800	491.40
1985	5.70	1.35	7.05	39,600	534.60
1986	5.70	1.45	7.15	42,000	609.00
1987	5.70	1.45	7.15	43,800	635.10
1988	6.06	1.45	7.51	(1)	(1)
1989	6.06	1.45	7.51	(1)	(1)
1990 and after	6.20	1.45	7.65	(1)	(1)

[1] The maximum earnings subject to the tax increases each year in accordance with the increase in average earnings.

Those who are uninsured under part A may elect to enroll by paying the full cost of coverage. The cost of the monthly premium for calendar year 1987 is $226.

Part B, which is voluntary, is financed from premiums paid by the aged, disabled and chronic renal disease enrollees and from the general revenues. The premium rate is derived annually based upon the projected costs of the program for the coming year. Under prior law, the premium rate was changed on July 1 of each year. The Social Security Amendments of 1983 (Public Law 98-21) moved the premium increase date to January 1 of each year to coincide with the changed date for the annual Social Security cash benefit cost-of-living (COLA) increase.

Ordinarily, the premium rate is the lower of: (1) an amount sufficient to cover one-half of the costs of the program for the aged or (2) the current premium amount increased by the percentage by which cash benefits were increased under the COLA provisions of the Social Security program. Premium income, which originally financed half of the costs of part B, had declined—as a result of this formula—to less than 25 percent of total program income.

The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248), temporarily suspended the COLA limitation for 2 years—calendar years 1984 and 1985. During this period, enrollee premiums will be allowed to increase to amounts necessary to produce premium income equal to 25 percent of program costs for elderly enrollees. The Deficit Reduction Act of 1984 (Public Law 98-369) extended the TEFRA provision through calendar years 1986 and 1987. The premium beginning January 1, 1987, is $17.90 per month.

As noted above, the premiums paid by part B enrollees finance one-quarter of the cost of the program. The remaining cost is financed from the Federal general revenues.

Financial Status of the Trust Funds

The Hospital Insurance Trust Fund balances are dependent upon the income to the HI trust fund primarily through payroll taxes exceeding the outlays for Medicare benefits and administrative costs. Outlays are affected by increases in inpatient hospital expenditures which have been rising at a faster rate than the income to the HI trust fund. Table 11 shows the percentage increase in Medicare outlays from fiscal year 1967 to fiscal year 1986 and the Congressional Budget Office (CBO) projections from 1986 to 1992. According to the CBO, hospital costs attributable to Medicare beneficiaries are projected to increase over the 1988-92 period at an average annual rate of 11.3 percent, while income is projected to grow at an annual rate of 7.2 percent. The CBO baseline assumes DRG rates will be increased by market basket minus 2 percent on October 1, 1987, and by market basket for each fiscal year thereafter.

Due to this excess of outlays over income, the HI trust fund faces serious financial difficulties in the future. Under current policies, the trust fund is expected to be depleted in the latter part of the next decade.

TABLE 11.—MEDICARE OUTLAYS, FISCAL YEARS 1967-92

Fiscal year	Part A		Part B		Total	
	Dollars (in millions)	Percent increase (over prior year)	Dollars (in millions)	Percent increase (over prior year)	Dollars (in millions)	Percent increase (over prior year)
1967	2,597	.....	799	.....	3,396	.....
1968	3,815	46.9	1,532	91.7	5,347	57.4
1969	4,758	24.7	1,840	20.1	6,598	23.4
1970	4,953	4.1	2,196	19.3	7,149	8.4
1971	5,592	12.9	2,283	4.0	7,875	10.2
1972	6,276	12.2	2,544	11.4	8,820	12.0
1973	6,842	9.0	2,637	3.7	9,479	7.5
1974	8,065	17.9	3,283	24.5	11,348	19.7
1975	10,612	31.6	4,170	27.0	14,782	30.3
1976 [1]	12,579	18.5	5,200	24.7	17,779	20.3
1977	15,207	20.9	6,342	22.0	21,549	21.2
1978	17,862	17.5	7,350	15.9	25,211	17.0

TABLE 11.—MEDICARE OUTLAYS, FISCAL YEARS 1967–92—Continued

Fiscal year	Part A		Part B		Total	
	Dollars (in millions)	Percent increase (over prior year)	Dollars (in millions)	Percent increase (over prior year)	Dollars (in millions)	Percent increase (over prior year)
1979	20,343	13.9	8,805	19.8	29,148	15.6
1980	24,287	19.4	10,746	22.1	35,034	20.2
1981	29,248	20.4	13,240	23.2	42,488	21.3
1982	34,864	19.2	15,559	17.5	50,423	18.7
1983	38,551	10.6	18,317	17.7	56,868	12.8
1984	42,295	9.7	20,374	11.2	62,669	10.2
1985 [2]	48,667	15.1	22,730	11.6	71,397	13.9
1986	49,685	2.1	26,217	15.3	75,902	6.3
1987 (est.)	50,090	0.8	29,667	13.2	79,757	5.1
1988 (est.)	57,481	14.8	34,244	15.4	91,725	15.0
1989 (est.)	62,759	9.2	38,625	12.8	101,384	10.5
1990 (est.)	69,979	11.5	43,618	12.9	113,597	12.0
1991 (est.)	77,334	10.5	49,359	13.2	126,693	11.5
1992 (est.)	85,396	10.4	55,774	13.0	141,170	11.4

[1] In the transition quarter from July to October 1976 (when the beginning of the Federal fiscal year was changed), outlays were $4,805 million. These outlays do not appear in the table.
[2] HI outlays are $1.3 billion higher in fiscal year 1985 because of a delay in periodic interim payments.

Source: 1986 Annual Report of the Board of Trustees: Federal Hospital Insurance Trust Fund and Supplementary Medical Insurance Trust Fund and CBO projections for 1987 through 1992 under current law.

Supplementary medical insurance

Because the Supplementary Medical Insurance Trust Fund (SMI) is financed through beneficiary premiums and the general revenues, it does not face the prospect of depletion as does the HI trust fund. However, the rapidly rising cost of health care is placing a heavy burden on the SMI trust fund—causing beneficiary premiums to rise and increasing the Federal deficit. CBO estimates that SMI outlays will increase at an annual rate of 13.5 percent from 1987 through 1992.

HI trust fund income, outlays, and balance

Table 12 shows the projections of the Congressional Budget Office under its baseline, low and high growth alternatives and the administration for the HI trust funds with respect to income, outlays and balances for the years 1986 through 1992.

The projections shown in table 12 for the hospital insurance component of Medicare are particularly uncertain after 1987 because of uncertainties concerning future hospital reimbursements. The Social Security Amendments of 1983 instituted a prospective reimbursement system for inpatient hospital services. For 1984 and 1985, the Social Security Amendments gave guidance concerning the setting of the DRG rates.

During the first two years of the new prospective payment system, the DRG rates were to be budget neutral. The Deficit Re-

duction Act of 1984 established a maximum cap on the rate of increase of DRG rates in 1986. For fiscal year 1988, Public Law 99–509 established the rate of increase at market basket minus 2 percent. After 1988, the DRG rates are to be set by the Secretary of Health and Human Services, advised by an independent commission.

For 1989–1992, CBO assumes that the DRG rate will grow at a rate equal to the increase in the cost of market basket of goods and services typically purchased by hospitals. The administration assumes the DRG rate will increase at a rate only one-half that of the increase in the cost of a market basket. On a rate that is only one-half that assumed by CBO. In addition, both the Administration and CBO assume outlays will rise with projected increases in eligible beneficiaries and hospital utilization.

However, there are important conceptual differences between the CBO and administration estimates which explain why the HI trust fund balances are larger in the administration estimates as compared to the CBO estimates. In the administration estimates, savings from the administration proposals which the administration contends can be instituted by regulation are incorporated into the estimates shown in Table 12. These include the prospective payment formula for capital, and other proposals. Estimates of the administration's legislative proposals are not included. CBO does not incorporate either the legislative or regulatory initiatives in its estimates.

In addition, there are important differences in projecting Medicare expenditures for fiscal year 1988 between CBO and the Administration. The CBO preliminary baseline estimates of Medicare spending are $1.6 billion above the OMB current service estimates for fiscal year 1987 and $5.4 billion for fiscal year 1988. These differences represent 2.1 percent and 6.5 percent of total estimated spending in fiscal years 1987 and 1988. By far the largest difference, $4.9 billion, is found in the Hospital Insurance spending estimates for fiscal year 1988.

The $4.9 billion difference can be explained by differences in the assumed 1986 Hospital Insurance program level ($1 billion), by different assumptions concerning the speed with which intermediaries pay certain hospital bills ($1.4 billion), and by differences in assumed program growth rates over and above that resulting from increases in the DRG rates ($2.5 billion).

Both the CBO and Health Care Financing Administration (HCFA) models for projecting Hospital Insurance outlays begin with estimates of 1986 program levels. The CBO projects from the Department of Treasury's Monthly Treasury Statement (MTS) on total outlays in fiscal year 1986. The Administration actuaries project from a 1986 spending level contained on the National Summary Forms (NSF) which are provided to HCFA by the intermediaries. Historically, the NSF data has been about $200 million lower than the MTS data for each fiscal year. In 1985, however, the MTS data was $600 million above the NSF data, and in 1986 the difference grew to $1.3 billion. Since we do not know why this difference has grown so rapidly, we do not know if it will return to historical levels, will remain at 1986 levels, or will continue to escalate. The HCFA estimates assume that the 1986 MTS outlay esti-

mate is not an accurate measure of Hospital Insurance activity in 1986 while the CBO estimate assumes that the MTS data is an accurate indicator of 1986 program spending. These assumptions cause an estimating difference in 1988 of approximately $1 billion.

An additional $1.4 billion of the $4.9 billion 1988 difference results from differing assumptions concerning the speed with which hospitals are reimbursed under Medicare. Reconciliation legislation requires that these claims be paid within 30 days in 1987 and within 26 days in 1988. The CBO estimate assumes that payments will speed up four days in 1988 in order to meet the reconciliation target, at a cost of $400 million. While the law does not require it, the Administration has announced a policy of slowing claims processing to 26 days by the end of fiscal year 1988 and their estimates assume payments will slow down ten days, yielding savings of $1 billion.

Finally the remainder of the 1988 difference, $2.5 billion, results from CBO assuming higher rates of growth in medical care services than does the Administration. These higher rates of growth are beyond the growth caused by increases in the DRG's. Both estimates assume that the DRG's are increased 1.15 percent in 1987 and 2.9 percent in 1988. Hospital Insurance payments, however, grow annually for many reasons other than direct increases in reimbursement rates. Growth also results from increases in caseloads, increases in hospital admissions, disproportionate increases in expensive diagnoses, increases in capital costs, increases in home health services, and increases in nursing home services.

After adjusting for changes in the speed of payments, the CBO estimate assumes that hospital insurance outlays will grow 7.2 percent per year over the two years from 1986 to 1988. The Administration's estimate, similarly adjusted, assumes average outlay growth in the hospital insurance trust fund of 4.9 percent per year.

From 1981 through 1986, annual growth rates have averaged 11 percent per year. However, major legislative proposals over the last six years have altered the way in which hospitals are reimbursed and have attempted to limit the very rapid growth in hospital expenditures experienced in the late 1970's and early 1980's. At the same time, many changes are taking place in the private sector as businesses and consumers search for more economical ways to meet their health care needs.

The sudden slowing of Hospital Insurance expenditures to 2 percent in 1986 would seem to indicate great budgetary success. However, the degree of success is overstated by these figures. Two major factors affected the 1986 increase. First, 1985 outlays were abnormally high because of legislation that pushed some Hospital Insurance payments from the last 2 weeks of fiscal 1984 into 1985. Because the 1985 base was artificially high, the growth between 1985 and 1986 was low. Second, Hospital Insurance payments were reduced 1 percent in the last 7 months of 1986 as a result of the Balanced Budget Act of 1986. This one-time adjustment lowers the 1986 growth. After adjusting 1986 program growth for these two factors which have no effect on future program growth, the 1986 growth rate increases to 5 percent.

Since DRG rates were essentially frozen in 1986, the 5-percent increase in 1986 reflects the underlying growth above any increase in

DRG's of Hospital Insurance outlays. The 1987 and 1988 DRG increase assumed by both CBO and HFCA actuaries, however, are 1.15 percent and 2.9 percent respectively, an average of about 2 percent per year. Thus, adding an average of 2 percent per year to the underlying growth of 5 percent yields an estimated 7 percent growth rate. The CBO estimate assumes an average growth rate of 7.2 percent for 1987 and 1988.

These differences between CBO and the Administration lead to considerable difference in outlay growth and trust fund balances. Under the CBO baseline path, HI expenditures are $85.4 in fiscal year 1992 with a year-end balance of $86.9 billion. By contrast, under Administration assumptions, outlays have grown to $65.9 billion in fiscal year 1992, approximately $20 billion less than that projected by CBO. Conversely, the trust fund balance is approximately $35 billion larger under Administration projections.

Under the CBO baseline projections, from 1988 to 1992, outlays increase at an annual rate of 11.3 percent while income increases at an annual rate of 7.2 percent. This leaves a projected balance in the HI trust fund at the end of 1991 of $86.9 billion.

Under the low growth projections, outlays increase at an annual rate of 9.7 percent while income grows at an annual rate of 4.7 percent from 1988 to 1992. This difference of 5.0 percent between outlays and income compared to the baseline difference of 4.1 percent, causes the balance at the end of fiscal year 1992 to be lower: $50.2 billion compared to the baseline balance of $65.9 billion.

Under the high growth projections outlays increase at an annual rate of 12.7 percent compared to income growth of 9.2 percent per year. This leaves a balance of $91.8 billion at the end of fiscal year 1992. The perceived financial status of the HI trust fund in the future is dependent upon the estimated outlay growth compared to revenue growth. A small difference in the assumptions underlying those projections can create large differences in when the HI trust fund will be depleted and upon the amounts needed to keep the trust fund balances positive through a given time period.

TABLE 12.—PROJECTIONS FOR THE HOSPITAL INSURANCE TRUST FUND, BUDGET AUTHORITY, AND OUTLAYS, FISCAL YEARS, UNDER CBO BASELINE, LOW AND HIGH GROWTH SET OF ECONOMIC ASSUMPTIONS AND ADMINISTRATION ASSUMPTIONS, PRESENT LAW

[In billions]

	1986	1987	1988	1989	1990	1991	1992
CBO baseline:							
Total outlays	49.7	50.1	57.5	62.8	70.0	77.3	85.4
Income [1]	67.1	62.4	67.3	72.2	77.7	83.1	88.5
Year-end-balance	38.6	51.0	60.8	70.2	78.0	83.7	86.9
Start of year balance, as percent of outlays	43	77	89	97	100	101	98

TABLE 12.—PROJECTIONS FOR THE HOSPITAL INSURANCE TRUST FUND, BUDGET AUTHORITY, AND OUTLAYS, FISCAL YEARS, UNDER CBO BASELINE, LOW AND HIGH GROWTH SET OF ECONOMIC ASSUMPTIONS AND ADMINISTRATION ASSUMPTIONS, PRESENT LAW—Continued

[In billions]

	1986	1987	1988	1989	1990	1991	1992
CBO low growth:							
Total outlays	49.7	50.1	57.0	61.1	67.1	73.2	79.7
Income [1]	67.1	59.6	61.4	64.1	67.9	71.7	75.0
Year-end-balance	38.6	48.2	52.6	55.6	56.3	54.9	50.2
Start of year balance, as percent of outlays	43	77	85	86	83	77	69
CBO high growth:							
Total outlays	49.7	50.1	57.5	63.0	70.9	79.9	91.2
Income [1]	67.1	62.1	67.3	73.6	79.3	87.0	96.4
Year-end-balance	38.6	50.7	60.5	71.1	79.5	86.6	91.8
Start of year balance, as percent of outlays	43	77	88	96	100	99	95
Administration:							
Total outlays	49.7	48.3	49.1	54.5	58.2	62.0	65.9
Income [1]	67.0	62.6	69.7	75.8	81.5	87.1	92.4
Year-end-balance	39.8	54.2	69.4	85.3	102.6	121.1	NA
Start of year balance, as percent of outlays	43	82	110	127	147	166	NA

[1] Income to the trust funds is budget authority. It includes payroll tax receipts, interest on balances, and certain general fund transfers. In addition, it also reflects the interfund borrowing repayments from OASI to HI—$10,613 million in 1986.

Source: Congressional Budget Office and Office of Management and Budget/HCFA.

Sensitivity of HI trust funds balances to different outlay growth assumptions

Table 13 presents alternative projections of Hospital Insurance (HI) trust fund outlay growth through 1992. All of these projections assume the economic projections underlying the baseline path. The alternatives all are arranged in the table from least to most growth. Hospital outlays are projected to grow by 1 or 2 percent less and 1 or 2 percent more than the baseline in each year. These changes could be due to variations in hospital rate increases, admission patterns, intensity or change in case mix, or technology changes. The percentage refers to entire hospital outlays and not just those outlays covered by the prospective payment system.

Income to the trust fund is the same (except for interest which varies by size of trust fund balance) in each projection. Under the least growth alternative, expenditures are $78.5 billion in fiscal year 1992 compared to $85.4 billion in the baseline projection. Trust fund balances are $20 billion greater in this alternative.

Conversely, under the alternative with the most growth, expenditures are $7.4 billion higher and trust fund balances $21 billion smaller in 1992 as compared to the baseline projection.

TABLE 13.—ALTERNATIVE PROJECTIONS OF HOSPITAL INSURANCE OUTLAY GROWTH AND YEAR-END BALANCES [1]

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990	1991	1992
2 percent less hospital outlays:							
Outlays	49.7	50.1	56.5	60.7	66.5	72.3	78.5
End-of-year balance	38.6	51.0	61.8	73.5	85.0	96.3	107.3
1 percent less hospital outlays:							
Outlays	49.7	50.1	57.0	61.7	68.2	74.8	81.9
End-of-year balance	38.6	51.0	61.3	71.9	81.5	90.1	97.2
Baseline:							
Outlays	49.7	50.1	57.5	62.8	70.0	77.3	85.4
End-of-year balance	38.6	51.0	60.8	70.2	78.0	83.7	86.9
1 percent more hospital outlays:							
Outlays	49.7	50.1	58.0	63.8	71.8	80.0	89.0
End-of-year balance	38.6	51.0	60.3	68.6	74.4	77.3	76.3
2 percent more hospital outlays:							
Outlays	49.7	50.1	58.5	64.9	73.6	82.7	92.8
End-of-year balance	38.6	51.0	59.8	67.0	70.8	70.7	65.5

[1] Projections assume economic assumptions underlying CBO's baseline path.

Source: Congressional Budget Office.

Projections beyond 1990

Longer-term projections of trust fund balances depend on many different assumptions. Factors such as changes in PPS rates, number of beneficiaries, admission rates, and others will affect trust fund outlays. Also, the extent to which the complexity of diagnosis has grown and might continue to grow would increase outlays, by how much is difficult to estimate. Finally, forecasting changes in medical technology and their implications for spending is very difficult.

In the absence of CBO projections beyond 1992, committee staff extrapolated the lastest CBO projections from 1992 to 2000. This extrapolation was done by assuming that the rate of growth in outlays between 1991 and 1992 would remain the same over the next 10 years. A similar assumption was made with respect to income. These results are shown in table 14.

The projections in table 14 indicate that insolvency of the HI trust fund is postponed until the latter portion of the 1990's. It should be emphasized that even assuming a 1 percent lower or higher hospital outlay growth path relative to the baseline does not change appreciably the estimated date when the HI trust fund is exhausted. Under these committee staff extrapolations of CBO projections, the HI fund is exhausted in 1999 under the baseline path; 1997 under a 1 percent higher outlay growth rate than assumed in the baseline path; and after 2000 under a 1 percent lower growth rate in outlays relative to the baseline. These projections indicate solvency has been lengthened by two years compared to similar projections made a year ago.

TABLE 14.—PROJECTIONS OF HI OUTLAY AND TRUST FUND BALANCES TO 2000 BASED UPON CBO's, JANUARY 1987 PROJECTIONS

Fiscal year	Baseline path		Baseline path—Assuming 1 percent less increase		Baseline path—Assuming 1 percent more increase	
	Outlays	Year-end balance	Outlays	Year-end balance	Outlays	Year-end balance
January 1986 estimates:						
1990	70	78	68	82	72	74
1995 [1]	115	74	108	105	123	41
2000 [1]	199	−84	169	36	210	−213
Year trust funds exhausted	1999		After 2000		1997	

[1] Estimates made by committee staff by extrapolating the same growth rate between 1991 and 1992 assumed by CBO in this most recent projection throughout the period from 1993 to 2000 for both income and outlays.

Long-range estimates

Long-range estimates for the next 25 years are shown in table 15 for the HI program and are based on the alternative II–B assumptions. As in the case of the OASDI program, annual expenditures as a percentage of taxable earnings are shown in table 15 as the cost rate. The income rate for the HI program is simply the combined scheduled tax rate for employees and employers.

The average deficit over the 25-year period is 0.66 percent of taxable earnings. Last year, this deficit was estimated to be 0.68 percent of taxable earnings and the year before, 1.37 percent of taxable earnings. Nevertheless, near the end of the 25-year period, either the tax rate must increase substantially or costs must decline.

TABLE 15.—ESTIMATED LONG-RANGE HI ANNUAL COST RATE, ANNUAL INCOME RATE, AND ACTUARIAL BALANCE

[Percent of taxable payroll]

	Expenditures under the program [1]	Trust fund building and maintenance [2]	Total cost of the program [3]	Tax rate scheduled in the law [4]	Difference
Calendar year:					
1984	2.71	0.07	2.79	2.60	−0.19
1985	2.67	.01	2.68	2.70	.02
1986	2.60	.02	2.62	2.90	.28
1987	2.69	.04	2.73	2.90	.17
1988	2.82	.04	2.86	2.90	.04
1989	2.92	.04	2.95	2.90	−.05
1990	3.03	.03	3.07	2.90	−.17

TABLE 15.—ESTIMATED LONG-RANGE HI ANNUAL COST RATE, ANNUAL INCOME RATE, AND ACTUARIAL BALANCE—Continued

[Percent of taxable payroll]

	Expenditures under the program [1]	Trust fund building and maintenance [2]	Total cost of the program [3]	Tax rate scheduled in the law [4]	Difference
1995	3.54	.04	3.58	2.90	−.68
2000	3.90	.03	3.93	2.90	−1.03
2005	4.21	.03	4.24	2.90	−1.34
2010	4.56	.02	4.58	2.90	−1.68
25-year average: 1986–2010	3.67	.04	3.72	2.90	−.66

[1] Costs attributable to insured beneficiaries only. Benefits and administrative costs for noninsured persons are financed through general revenue transfers and premium payments, rather than through payroll taxes. Gratuitous credits for military service after 1956 are included in taxable payroll.

[2] Allowance for building and maintaining the trust fund balance at the level of a half year's outgo after accounting for the offsetting effect of interest earnings.

[3] Totals do not necessarily equal the sum of rounded components.

[4] Rates for employees and employers combined.

Note: The above estimates are based on the 1986 alternative II–B assumptions.

Source: Office of the Actuary, Health Care Financing Administration.

Recent Legislative Changes

Summarized in tables 16–21 are the legislative changes made in Medicare in 1981, 1982, 1983, 1984 and 1986. The changes were incorporated in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35), the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97–248), the Social Security Amendments of 1983 (Public Law 98–21), Deficit Reduction Act of 1984 (Public Law 98–369) and Public Law 98–617, the Consolidated Omnibus Budget Reconciliation Act of 1985 (Public Law 99–272) and the Omnibus Budget Reconciliation Act of 1986 (Public Law 99–509).

The annual savings have not been totaled because of the differences in underlying economic assumptions in each year's estimates. In addition, some of the provisions have not yet been implemented.

These tables are primarily useful as a short legislative history of when certain changes were enacted. The numbers illustrate the expected savings either at the time of enactment or shortly thereafter. Increasingly, it is becoming clear that these savings estimates, particularly for hospital and physician reimbursement, are not accurate.

Also, in examining table 21, these estimates are made relative to a baseline which assumed the DRG rate of increase was 0.5 percent and the periodic interim payments were eliminated for all hospitals except small rural hospitals.

The major legislative changes enacted in 1986 are described in the section following table 21.

TABLE 16.—CONGRESSIONAL BUDGET OFFICE [1] REVISED ESTIMATES FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1981 (OMNIBUS BUDGET RECONCILIATION ACT OF 1981)

[In millions of dollars]

January 1982 estimates	Fiscal year—		
	1982	1983	1984
Provisions affecting hospital insurance:			
Making part A deductible and coinsurance more current	−185	−305	−360
Less frequent SNF surveys [2]	−4	−4	−4
Repeal of temporary delay in periodic interim payments	−692	0	0
Making part A coinsurance current with the year in which services are furnished	−5	−10	−10
Set section 223 limits on reimbursements to hospitals at 108 percent	−75	−105	−125
Limit nursing differential to 5 percent	−95	−105	−130
Elimination of occupancy test for hospital long-term care	−70	−80	−90
Set section 223 limits on reimbursement to home health agencies at 45th percentile	−12	−23	−27
PSRO modifications	−5	−8	−5
Payments to promote closing and conversion of underutilized facilities [2]	−2	−7	−19
Elimination of need for occupational therapy as a basis for entitlement to home health services	−23	−27	−31
Eliminate reimbursement for free-standing alcohol detoxification facilities	([3])	([3])	([3])
Total—Hospital insurance	−1,168	−674	−801
Provisions affecting supplementary medical insurance:			
Increase in part B deductible and elimination of carryover from previous year	−175	−265	−295
Civil money penalties	−7	−7	−7
Elimination of unlimited open enrollment	−9	−10	−11
Limitation on reasonable charge for outpatient services	−15	−23	−27
Incentive reimbursement rate for renal dialysis services [4]	−105	−130	−155
Medicare payments secondary in cases of end-stage renal disease (revenue increase)	−95	−165	−180
Total—Supplementary medical insurance	−406	−600	−675
Total HI and SMI	−1,574	−1,274	−1,476

[1] This table reflects estimates from the Congressional Budget Office which show the impact of the legislative changes enacted during 1981. The numbers are not extremely sensitive to economic conditions. Thus any changes to the numbers from earlier estimates represent different assumptions.

[2] As of January 1, 1985, the provision had not been implemented.

[3] Negligible.

[4] CBO and Administration estimate that was used during the 1981 reconciliation process.

Note.—Minus (−) indicates an expenditure reduction or revenue increase, plus (+) indicates an expenditure increase or revenue decrease.

TABLE 17.—CONGRESSIONAL BUDGET OFFICE [1] REVISED OUTLAY ESTIMATES FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1982 (TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982)

[In millions of dollars]

January 1983 estimates	Fiscal year—				
	1983	1984	1985	1986	1987
Medicare secondary for older workers	−88	−265	−451	−680	−780
80 percent radiologist/pathologist (medicaid cost of $90 million)	−150	−210	−245	−280	−315
Elimination of nursing differential	−95	−110	−125	−145	−165
Hospital-based physicians	−6	−40	−75	−110	−125
Part B premium as a constant percentage of costs (medicaid cost of $155 million)	−35	−240	−550	−600	−650
Hospital reimbursement changes [1] (medicaid savings of $460 million)	−895	−2,380	−4,610	−3,060	−1,740
Elimination of private room subsidy	−35	−75	−80	−85	−90
Single reimbursement limit for skilled nursing facilities and home health agencies	−20	−53	−62	−69	−77
Elimination of duplicate payments for outpatient services	−75	−135	−175	−210	−255
Audit and medical claims review	−85	−215	−215	−130	0
Temporary delay in periodic interim payments	−750	−100	870	0	0
Reimbursement of assistants at surgery	−24	−63	−113	−170	−195
Prohibition of payments for ineffective drugs	0	0	0	0	0
Medicare payments to HMO's	0	0	0	0	0
Technical corrections	0	0	0	0	0
Hospice care	1	1	−16	−40	0
Coverage of extended care services	0	0	0	0	0
Percentage arrangements (not for hospital-based physicians)	0	−17	−20	−23	−26
Prohibit payment for Hill-Burton care	−15	−17	−20	−23	−26
Prohibiting payment for antiunionization activities	0	0	0	0	0
Lesser of cost or charges	0	0	0	0	0
Extend medicare proficiency exam	0	0	0	0	0
Access to books and records	0	0	0	0	0
Private sector utilization review	0	0	0	0	0
Part B enrollment	(2)	(2)	(2)	(2)	(2)
Subtitle C—Utilization and quality control peer review	0	−15	−20	−20	−25
HI tax for Federal employees (outlay savings)	−116	−160	−174	−195	−207
Total medicare provisions	−2,388	−4,094	−6,081	−5,840	−4,676

[1] Assumes the "target" reimbursement system is not extended after 3 years.
[2] Negligible cost.

TABLE 18.—CONGRESSIONAL BUDGET OFFICE OUTLAY AND INCOME ESTIMATES FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1983 (THE SOCIAL SECURITY AMENDMENTS OF 1983)

[In millions of dollars]

	1983	1984	1985	1986	1987	1988
Supplementary medical insurance:						
Medicare premium delay:						
SMI	113	63	−90	−202	−206	−211
HI	1	(1)	(1)	(1)	(1)	(1)
Hospital insurance outlays:						
Pass through mandatory FICA	0	150	224	150	38	7
Prospective payment system	0	0	0	(2)	(2)	(2)
Delay SNF reimbursement limit	20	22	5	3	3	4
Lower return on equity capital	−10	−90	−100	−100	−40	0
DRG Commission	0	[3] 1	[3] 2.4	[3] 3	[3] 3	[3] 3
Total HI outlay changes	10	83	132	56	4	14
Hospital insurance income:						
SECA tax increase	0	377	1,262	1,434	1,605	1,670
Cover nonprofit organizations	0	216	326	397	480	605
State speedup	0	140	10	10	10	10
Military transfer credits	3,290	−70	−70	−60	−60	−60
Total HI income changes	3,290	663	1,528	1,781	2,035	2,225
Total outlay and income infusions to HI Trust Fund	3,280	580	1,396	1,725	2,031	2,211
Estimated HI Interest Income	44	386	499	634	765	902
Total annual increase in HI Trust Fund	3,324	966	1,895	2,359	2,796	3,113

[1] Less than $0.5 million.

[2] The budgetary impact cannot be estimated because the law allows the Secretary of HHS, as advised by a panel of experts, nearly unlimited discretion in setting payment rates for inpatient hospital services. Those rates could be set such that aggregate medicare outlays would increase or decrease.

[3] This provision is subject to appropriation. For fiscal year 1984, the appropriation was $1.5 million.

Source: CBO estimates based on January 1983 economic assumptions.

TABLE 19.—CONGRESSIONAL BUDGET OFFICE OUTLAY IMPACT FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1984

[In millions of dollars]

June 1984 estimates	Fiscal year—			
	1984	1985	1986	1987
Delay implementation of single limit for SNF's	20	30	35	40
Hospital rate of increase	0	0	−180	−250
Establish fee schedule for clinical lab services	−40	−240	−300	−380
(Medicaid)	(−10)	(−49)	(−57)	(−67)

TABLE 19.—CONGRESSIONAL BUDGET OFFICE OUTLAY IMPACT FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1984—Continued

[In millions of dollars]

June 1984 estimates	Fiscal year—			
	1984	1985	1986	1987
Hepatitis B vaccine	3	−1	−2	−2
Physician fee freeze	−40	−720	−840	−950
(Medicaid)	(0)	(−14)	(−16)	(−18)
Limitation on certain foot services	−3	−11	−11	−12
Part B premium increase	0	0	−384	−884
Premium decrease due to other savings	0	187	246	288
(Medicaid)	(0)	(−14)	(10)	(45)
Revaluation of assets	−2	−25	−45	−70
Competitive contracting	0	−15	−25	−33
Lesser of costs and charges	0	−45	−55	−65
Coinsurance for DME	−5	−20	−25	−25
Working aged	0	−260	−380	−415
Payment rate for routine home care under hospice program (Public Law 98–617)	0	1	3	0
Medicare total	−67	−1,306	−1,825	−2,162
(Medicaid total)	(−10)	(−77)	(−63)	(−40)
Premium totals	0	187	−138	−596
Total Medicare provisions	−77	−1,196	−2,026	−2,798

Note: Savings are from legislation made in the Deficit Reduction Act of 1984, Public Law 98–369 except where noted.

TABLE 20.—ESTIMATED BUDGET IMPACT OF COBRA RECONCILIATION PROVISIONS, BY PROVISION (P.L. 99–272)

[In millions]

	Fiscal year—					
	1986	1987	1988	1989	1990	1991
Limit hospital increase	65	170	190	210	240	260
Delay transition	−45	−255	0	0	0	0
Lower indirect GME adjustment to 8.7 percent	−180	−580	−850	−1,100	−1,250	−1,350
Disproportionate share (create disproportionate share adjustment, lower indirect GME adjustment to 8.1 percent, and restandardize DRG rates in 1987 and 1988)	95	0	0	0	0	0
Reduce return on equity	0	−40	−110	−190	−280	−360

TABLE 20.—ESTIMATED BUDGET IMPACT OF COBRA RECONCILIATION PROVISIONS, BY PROVISION (P.L. 99–272)—Continued

[In millions]

	Fiscal year—					
	1986	1987	1988	1989	1990	1991
Indirect teaching adjustment for Mayo Clinic	4	0	0	0	0	0
Payments for sole community	2	5	5	5	5	5
Access to SNF's	0	15	35	35	35	35
GME direct	25	−60	−135	−165	−205	−250
Limiting penalty for part A	1	5	5	5	5	5
Working aged	−90	−349	−385	−443	−503	−562
Audit and medical claims review	−101	−144	−141	9	9	9
Physician fee freeze	−195	−300	−360	−350	−285	−95
Premiums increase	0	0	−464	−516	−547	−581
Payments for assistants at surgery	−15	−27	−25	−30	−29	−34
Prosthetic lens for cataract	−20	−35	−38	−42	−49	−52
Preventive care demos	1	1	1	0	0	0
Clinical lab	−10	12	22	22	27	37
Total Medicare	−463	−1,582	−2,250	−2,550	−2,827	−2,933

TABLE 21.—ESTIMATED BUDGET IMPACT OF OBRA RECONCILIATION PROVISIONS, BY PROVISION (P.L. 99–509)

[In millions]

	Fiscal year—		
	1987	1988	1989
Change in part A deductible	420	720	720
Payments for inpatient hospital services	230	−520	−675
Capital payments	−155	−355	−590
Puerto Rico on prospective payment	0	0	0
Quality of care—part A	38	50	47
Disproportionate share for rural hospitals	0	0	0
Technical and miscellaneous amendments—part A	0	0	0
PIP/prompt pay	625	815	315
HMO amendments	25	50	45
Quality of care—parts A and B	4	7	7
Direct costs of graduate medical education	0	0	0
Home health limits	20	15	20
Establish research programs	6	7	8
Civil penalties	0	0	0
Organ procurement	0	35	25
Medicare secondary payer	−190	−255	−275
Nurse anesthetists	0	0	0
Technical and miscellaneous amendments—parts A and B	0	0	0

TABLE 21.—ESTIMATED BUDGET IMPACT OF OBRA RECONCILIATION PROVISIONS, BY PROVISION (P.L. 99–509)—Continued

[In millions]

	Fiscal year—		
	1987	1988	1989
Physician payments	30	40	25
Inherent reasonableness/cataract surgery	−110	−155	−175
End stage renal disease payments	55	75	35
Vision care	35	60	70
Occupational therapy	5	20	20
Physician assistants	0	0	0
Clinical labs	−7	−54	−72
Payment for nutrition supplies	−25	−35	−40
Medicare appeal rights	4	8	8
Alzheimer's demo projects	14	14	14
Ambulatory surgery	−5	−45	−75
Technical and miscellaneous amendments—part B	0	0	0
Improved PRO reviews	9	16	18
Total	1,028	513	−525

1986 Legislative Changes

THE CONSOLIDATED OMNIBUS BUDGET RECONCILIATION ACT OF 1985 (COBRA)

1. *Rate of Increase in Payments for Inpatient Hospital Services.*—The current freeze will be extended on the prospective payment rates (PPS) and on the cost limits for PPS-exempt hospitals through April 30, 1986.

PPS hospitals will receive a one-half of 1 percent increase for the remainder of fiscal year 1986. The increase on the Federal portion will take effect for discharges occurring on or after May 1 and the increase in hospital specific portion will take effect with the 8th month of a hospital's cost reporting period beginning on or after October 1, 1985.

Provides PPS-exempt hospitals with a cost limit increase of 5/24ths of 1 percent for cost reporting periods beginning on or after October 1, 1985, but before October 1, 1986.

For fiscal years 1987 and 1988 allows an increase in the PPS rates and cost limits that is no greater than the increase in the hospital market basket index.

2. *One-year Extension of Transition to National PPS Rates.*—Extends the transition to national DRG rates for PPS hospitals, except for those hospitals located in the State of Oregon, as follows:

Beginning with the 8th month of a hospital's cost reporting period which starts during fiscal year 1986, the blend of the PPS rate will be 45 percent hospital specific and 55 percent Federal. For

cost-reporting periods, beginning during fiscal year 1987, the blend will be 25 percent hospital specific and 75 percent Federal.

Effective for discharges on or after May 1, 1986, and before October 1, 1986, the blend of the Federal rate components will be 75 percent regional and 25 percent national. For discharges occurring during fiscal year 1987, the blend of the Federal rate component will be 50 percent regional and 50 percent national.

For hospitals located in the State of Oregon, beginning with the 8th month of a hospital's cost reporting period which starts during fiscal year 1986, the blend of the PPS rate will be 25 percent hospital specific and 75 percent Federal. For cost reporting periods which start during fiscal year 1987 and thereafter payment will be on a totally national basis.

3. *Application of Revised Hospital Wage Index.*—Requires the implementation of the new "gross wage index" published in final regulations on September 3, 1985. The new index will be applied to discharges occurring after May 1, 1986. The Secretary would be required to make recommendations on refining the area wage index to reflect differences in wage costs incurred by hospitals located in the core city relative to those in suburban areas of the same metropolitan area.

4. *Change in Formula for Indirect Teaching Adjustment.*—Reduces the indirect teaching adjustment to 8.1 percent for discharges occurring on or after May 1, 1986, and before October 1, 1988. For fiscal year 1989 and beyond, such adjustment would be 8.7 percent for each 0.1 percent increase in the ratio of the hospital's interns and residents to the bed size on a variable or curvilinear basis.

The reduction from 11.59 percent on a linear basis to 8.7 percent on a curvilinear basis would reduce trust fund outlays. The savings from the further reduction from 8.7 percent to 8.1 percent would be used to offset some of the costs of the disproportionate share provision (see item 5 below).

Provides that interns and residents assigned to hospital outpatient departments would be counted in determining the adjustment.

In determining the indirect adjustment, the Secretary is prohibited from distinguishing between interns and residents who are employees of a hospital and those who furnish services but are not employees of the hospital.

The provision prohibits implementation of the reduction of the indirect teaching adjustment until additional payments to disproportionate share hospitals are initiated.

5. *Additional Payment Amounts for Hospitals Serving A Disproportionate Share of Low-Income Patients.*—Makes additional payments for eligible PPS hospitals serving a disproportionate share of low income patients.

Additional payments will be made to urban PPS hospitals with more than 100 beds if the hospital's percentage of low-income patients is 15 percent or higher. The maximum adjustment will be 15 percent.

The Federal portion of the payment will be increased by 5 percent for urban hospitals with less than 100 beds with a percentage of low-income patients of 40 percent or more. The increase in pay-

ments will be 4 percent for rural hospitals with a percentage of low-income patients of 45 percent or more.

The percentage of low-income patients is defined as the hospital's total number of inpatient days attributable to Federal supplemental security income medicare beneficiaries divided by the total number of medicare patient days, plus the number of medicaid patient days divided by the total patient days.

Payments will also be made to urban hospitals with 100 or more beds which demonstrate that more than 30 percent of their revenues are derived from State and local government payments for indigent care (excluding payments under title XIX).

Payments to qualified hospitals will be effective for discharges occurring on or after May 1, 1986, and before October 1, 1988.

6. *Treatment of Certain Rural Osteopathic Hospitals as Rural Referral Centers.*—Permits rural osteopathic hospitals to meet the rural referral center standards if they have at least 3,000 discharges in a cost reporting period and meet all other applicable requirements.

7. *Return on Equity (ROE) Capital for Inpatient Hospital Services and Other Services.*—Payments to hospitals for return on equity (ROE) capital will be separated from payments for other elements of capital costs and phased out over a 3-year period. For hospital cost reporting periods beginning in fiscal year 1987, ROE payments will be reduced by 25 percent per year until they are eliminated.

8. *Continuation of Medicare Reimbursement Waivers for Certain Hospitals Subject to Regional Hospital Reimbursement Demonstrations.*—Permits a local hospital reimbursement system that had operated under a waiver to continue if the State requests the continuation and if the local project meets certain requirements.

Extends the "Medicare Access" demonstration project through September 30, 1986.

9. *Four-Year Test for State Waivers for Certain States.*—Extends for 12-months, the current 36-month test period under the medicare waiver for certain statewide hospital reimbursement systems. The test period would therefore be 48 months.

10. *Special Rule for Treatment of Depreciation and Capital Indebtedness for Donations of State Property to Nonprofit Corporations.*—Provides a special rule for determining the basis for which medicare depreciation is allowed when a hospital is donated by a State government to a nonprofit corporation.

11. *Report on Impact of Outlier and Transfer Policy on Rural Hospitals.*—Requires the Secretary's review of the impact of outlier and transfer policies on rural hospitals.

12. *Information on Impact of PPS Payments on Hospitals.*—Requires the most current information on PPS payments under PPS to individual hospitals be made available on a confidential basis to the Prospective Payment Assessment Commission (ProPAC), the Congressional Budget Office (CBO), Congressional Research Service (CRS) and the General Accounting Office (GAO).

13. *Indirect Teaching Adjustment Related to Independent Clinic Activities.*—Clarifies a billing accommodation for certain hospitals.

Provides that part A services billed under the accommodation will be paid at 100 percent of the reasonable charge and the entity

billing such services under Part B must accept such payment as payment in full.

14. *Payments to Sole Community Hospitals.*—Requires an adjustment to the PPS rates to compenstate sole community hospitals that experience an increase in operating costs due to the addition of new inpatient facilities.

15. *Sense of the Senate with Respect to Inpatient Hospital Deductible.*—Expresses a sense of the Senate in regard to the medicare hospital inpatient deductible.

16. *Promulgation of Inpatient Hospital Deductible.*—Requires publication of a notice of the projected increase in the medicare hospital inpatient deductible by September 15 of each year.

17. *ProPAC Expansion.*—Expands by two, the membership of the Prospective Payment Assessment Commission.

18. *Extension and Payment for Hospice Care.*—Repeals the sunset provision for the medicare hospice benefit. Beginning April 1, 1986, the daily payment rates for hospice care will be increased by $10. The Secretary is to review the hospice rates and report to the Congress by October 1, 1986, on the adequacy of the rates in insuring medicare participation by an adequate number of hospice programs.

19. *Limiting the Penalty for Late Enrollment in Part A.*—Limits the part A penalty for those who enroll late to 10 percent of the standard premium, no matter how late the enrollment and limits the period during which the penalty is paid to twice the number of years enrollment was delayed.

This provision applies to medicare beneficiaries currently paying a part A premium penalty.

20. *Medicare Coverage of, and Application of Hospital Insurance Tax to, State and Local Government Employees.*—Medicare coverage would be extended on a mandatory basis to State and local government employees hired after April 1, 1986. States would be permitted to extend medicare coverage (without extending coverage under social security cash benefits) to such employees hired prior to April 1986 by voluntary agreement with the Secretary.

21. *Responsibilities of Medicare Hospitals in Emergency Cases.*—Requires participating medicare hospitals with emergency departments to provide a medical screening examination for any individual who requests it to determine whether an emergency medical condition exists or if the patient is in active labor.

Provides that participating hospitals must, (1) further examine and stablize the medical condition of the patient or provide treatment for the labor, unless such treatment is refused, or (2) transfer the patient to another medical facility, in accordance with a defined standard.

A hospital may not transfer a patient who has not been stabilized or who is in active labor unless: (1) the patient requests the transfer, or a physician has certified that, based on the information available at the time and using reasonable standards, the medical benefits to be obtained from appropriate medical treatment at another facility outweigh the risks of transfer, and (2) the receiving hospital has agreed to accept transfer, and has the space and qualified personnel.

Provides that if a hospital knowingly and willfully, or negligently fails to meet the requirements of this provision, the hospital would be subject to termination or suspension of its medicare provider agreement.

A participating hospital and the responsible physician that knowingly violates these requirements are each subject to a civil monetary penalty of not more than $25,000 for each violation.

A person who suffers personal harm, and any facility which suffers a financial loss as a result of a participating hospital's violation of these requirements, may bring a Federal civil action.

22. *Improve access to Skilled Nursing Facilities.*—Allows skilled nursing facilities (SNFs) providing less than 1,500 days of care per year to medicare patients in the preceding year to be paid a prospective rate set at 105 percent of the regional mean for all SNFs in the region. The rate is to be calculated separately for urban and rural areas, adjusted to reflect wage differences within each region. The rate covers all non-ancillary costs, including capital and return on investment.

SNFs accepting the prospective rate will be required to file a minimal cost report.

Requires the Secretary to maintain the five percent favorable presumption of the waiver of liability until 30 months after enactment.

23. *Limitation on Direct Medical Education Payments.*—Changes the way medicare reimburses hospitals for direct medical education costs, as follows:

Hospital-specific approved full-time equivalent (FTE) resident amounts will be determined based on data from hospital cost reporting periods beginning in fiscal year 1984. These amounts will be updated for inflation and increased by an additional one percent for use in determining payments for residency years beginning on or after July 1, 1985. Medicare hospitals will continue to be reimbursed on a cost basis for the direct medical education costs associated with nursing and other health training programs.

For reporting periods beginning after July 1, 1986, the approved FTE resident amounts will be determined by applying the increase in the CPI–U to the amounts allowed in the previous cost reporting period.

On or after July 1, 1986, hospitals will receive 100 percent of their approved FTE resident amount for each year of a resident's training that is within the minimum number of years of formal training necessary to satisfy specialty requirements for initial board eligibility, plus one year, to a maximum of five years.

For training years exceeding these limits, medicare payments for residency years beginning on or after July 1, 1986, will be made at 75 percent of the rate and, for residency years beginning on or after July 1, 1987, at 50 percent of the rate. Geriatric residencies and fellowships are excluded from this limit.

Effective July 1, 1986, a Foreign Medical Graduate (FMG) is no longer counted as an FTE resident unless the individual has passed the Foreign Medical Graduate Examination in Medical Sciences (FMGEMS), has received certification from the Educational Commission for Foreign Medical Graduates (ECFMG), or has passed an examination previously offered by the ECFMG.

A FMG resident in training prior to July 1, 1986, will be counted at a fifty percent rate until the resident passes the appropriate examination.

The Secretary is required to study a number of related issues.

24. *Moratorium on Medicare Lab Payment Demonstration.*—Postpones competitive bidding demonstrations for laboratory services until after December 31, 1986.

25. *Extend Home Health Waiver of Liability.*—Maintains the current 2.5 percent waiver of liability policy for home health agencies from the date of enactment until 12 months after claims processing for home health agencies has been consolidated under 10 regional intermediaries.

26. *Studies Relating to Physical Therapists and Other Professionals.*—Requires a study of certain medicare requirements affecting physical therapists.

27. *Extension of Working Aged Provisions to Individuals Over Age 69.*—Extends the current working aged provision to persons over age 69. Current law requires employes to offer their employees aged 65–69 the same group health plans offered to employees under age 65. Where employees elect such coverage medicare becomes the secondary payor.

28. *Health Maintenance Organization and Competitive Medical Plans.*—Clarifies the financial responsibility for payment when a beneficiary is an impatient of a PPS hospital on the effective date of his HMO/CMP enrollment. Specifies disenrollment procedures.

29. *Prohibition of Administrative Merger of Renal Disease Networks with Other Organizations.*—The Secretary would be prohibited from merging ESRD networks with other organizations, e.g. PROs. Permits consolidation of networks but there may not be less than 14 networks.

30. *Extension of Certain Municipal Health Services Demonstration Projects.*—Extends for 3 years, demonstration projects in Cincinnati, Milwaukee, San Jose, and Baltimore.

31. *Technical Corrections.*—The agreement includes technical corrections.

32. *Increase Audit Effort and Medical Claim Review.*—Supplements the budgets of medicare intermediaries and carriers by $60 million for fiscal years 1986–1988 to be used exclusively for provider audits, medical necessity reviews, and third party liability collection efforts.

33. *Sense of the Senate Regarding Liver Transplants.*—Expresses the sense of the Senate regarding medicare coverage of liver transplant services for individuals over 18 years of age.

34. *Physician payments.*—Extends existing payment rates for all physicians, and the freeze on nonparticipating physicians' actual charges through April 30, 1986. In April 1986, physicians may change their participation status for the 8-month period beginning May 1, 1986. Future update and participation cycles will begin on January 1 of each year, beginning in 1987.

Physicians covered under participation agreements on May 1, 1986 will receive updates in their customary and prevailing charges. Physicians who participated in fiscal year 1985 but are not participating for the period beginning May 1, 1986 will have their customary charges updated. For physicians participating during

neither period, the existing freeze on customary and prevailing charges is extended through December 31, 1986. The freeze on actual charges is extended for all nonparticipating physicians for the same period.

The customary and prevailing charge screen updates applied on May 1, 1986, for participating physicians are those which would have occurred on October 1, 1985, except for the postponements provided for under Public Laws 99-107, 99-155, 99-181, 99-189 and 99-201. In order to compensate participating physicians for the delay, the medicare economic index will be increased by one percentage point but the increase will not be permanently reflected in the prevailing charge levels.

Beginning January 1, 1987, nonparticipating physicians will be subject to the prevailing charge limits applied to participating physicians during the preceeding participation period.

35. *Physician Payment Assessment Group and Development of Relative Value Scale.*—Establishes an independent Physician Payment Review Commission responsible for reviewing and making recommendations regarding medicare physician payment. Requires the Secretary to develop a relative value scale that establishes a numerical relationship among physicians' services paid for under part B.

36. *Part B Premium.*—Extends for one year (calendar year 1988) the existing temporary provision requiring beneficiary premiums to be calculated to yield revenues equal to 25 percent of Part B costs.

37. *Inherent Reasonableness; Customary Charges for Certain Former Hospital Compensated Physicians.*—(a) Requires regulations to: (i) describe factors to be used in determining cases where application of the reasonable charge methodology results in charges that are not inherently reasonable; (ii) specify factors to be considered in establishing reasonable charges that are realistic and equitable; and (b) would establish a more equitable method for developing customary charge profile for certain hospital compensated physicians.

38. *Payments for Assistants at Surgery for Certain Cataract Operations.*—Limits coverage for assistants at surgery for certain cataract operations to situations where the appropriate PRO or carrier has approved the use of such assistant prior to the surgery because of medical necessity.

39. *Limitation on Medicare Payments for Post-Cataract Surgery Patients.*—Requires each carrier to: (a) provide for separate payment determinations for prosthetic lenses and related professional services, and (b) apply inherent reasonableness guidelines in determining charges for prosthetic lenses.

40. *Demonstration of Preventive Health Services Under Medicare.*—The Secretary would be required to fund at least 5 demonstration programs under the direction of accredited schools of public health or medical schools with preventive health departments accredited by the Council on Education for public health, to determine whether and how it would be cost-effective to include preventive services as a medicare benefit.

41. *Payment for Clinical Laboratory Services.*—Provides that the annual update in fee schedules will occur on January 1 each year beginning in 1987. Payment ceilings are to be set for each test and

applied nationwide. The ceilings will be set at 115 percent of the median fee for the respective tests beginning July 1, 1986, and 110 percent of the median beginning on January 1, 1988. Beginning January 1, 1987, medicare payments for laboratory tests billed by physicians would conform with the required assignment for independent labs.

42. *Second Opinions.*—Requires Peer Review Organizations (PROs) to perform 100 percent pre-procedure review on at least 10 elective surgical procedures whether the procedure is performed on an inpatient or outpatient basis.

PROs may approve or disapprove a procedure as reasonable and necessary without requiring a second opinion or the PRO may require a second opinion and allow the beneficiary to decide whether or not to undergo surgery based on the second opinion.

43. *Extension of On-Lok Waiver.*—Require the Secretary to extend the medicare waivers for the risk-sharing "On-Lok" demonstration upon their expiration and, if the State of California applies for an extension of related medicaid waivers, to approve the State's application.

44. *Removal of Comment Prohibition by Medicare and Social Security Actuaries Relating to Economic Assumptions.*—Permits medicare and social security actuaries to comment on the economic assumptions underlying the Trustees' report.

45. *Extension of GAO Reporting Date.*—Extends to May 1, 1986, the reporting date for the GAO report on medicare contracting.

46. *Allow Greater HMO Membership on PRO Boards.*—Gives Peer Review Organization applicants that have more than one HMO board member the same status as other organizations.

47. *Peer Review Organization Reimbursement.*—Specifies that fiscal year 1986 is the base year against which aggregate PRO expenditures are compared and deletes the section specifying that reimbursement be set at a level which reflects peer review rates in fiscal year 1982 (adjusted for inflation). Reimbursement is to be made to PROs on a monthly basis.

48. *PRO Review of HMOs.*—Effective January 1, 1987, requires PRO review of medicare services furnished to beneficiaries by HMOs and CMPs under a risk-sharing contract.

49. *Substitute Review Pending Termination of PRO Contract.*—Authorizes the Secretary to assign review authority to another PRO, intermediary, or carrier after the PRO has been notified of an intent to terminate its contract because the PRO is not performing effectively and prior to the time when a new PRO contract is awarded.

50. *Authorize Peer Review Organizations to Deny Payment for Substandard Care.*—Authorizes PROs to deny payment for care of substandard quality identified through criteria developed pursuant to guidelines established by the Secretary.

51. *Continued Health Coverage.*—Amends the Internal Revenue Code, ERISA, and the Public Health Service Act to require that an employer with 20 or more employees who maintains an employer provided group health plan must provide a continuation option to qualified beneficiaries. Churches and the Federal government are exempt from this provision.

A three-year continuation option must be offered to qualified beneficiaries who are widows, divorced spouses and spouses of medicare eligible employees, as well as dependent children of such beneficiaries. A three-year continuation option must also be offered separately to dependent children who are qualified beneficiaries when they cease to be covered as dependents under the plan. Terminated employees (voluntary and involuntary), except for gross misconduct, and employees with reduced hours must be provided an eighteen-month continuation option.

The coverage offered must be identical, as of the time the coverage is being provided, to the coverage provided to similarly situated beneficiaries under the plan.

The cost of coverage must not exceed 102 percent of the applicable premium and for self-insured plans, the "applicable premium" is equal to a reasonable estimate of the cost of providing coverage for similarly situated beneficiaries.

A conversion option must be offered to qualified beneficiaries if the conversion option is otherwise available under the plan.

These provisions are effective for plan years beginning after June 30, 1986. For collectively bargained agreements, the provisions do not apply to plan years beginning before (1), the termination date of the last collective bargaining agreement, or (2) January 1, 1987, whichever is later.

THE OMNIBUS BUDGET RECONCILIATION ACT OF 1986 (OBRA)

1. *Inpatient Hospital Deductible.*—Limits the inpatient part A hospital deductible to $520 for calendar year 1987. For each succeeding calendar year the deductible would change by the same percentage change that applies to the medicare hospital prospective payment rates (adjusted for real case mix).

2. *Rate of Increase.*—Increase the fiscal year 1987 payment rates for PPS and PPS-exempt hospitals by 1.15 percent and increases the fiscal year 1988 payment rates by the market basket minus 2 percent. The Secretary would be required to recalibrate the DRG relative weights annually. The Secretary must provide a report with recommendations on the fiscal year 1988 update factors for PPS and PPS-exempt hospitals by April 1, 1987, and each March 1, thereafter.

Effective October 1, 1986, as separate urban and separate rural set-aside factor for outliers would be established.

Effective October 1, 1987, the methodology for computing the urban and rural averages would be revised to reflect the operating cost per discharge for the average patient as opposed to the average hospital.

Hospitals designated as regional referral centers as of the date of enactment would be permitted to continue their designation for 3 additional years. Criteria for eligibility for regional referral center status would be established by law.

3. *Payments for Capital-Related Costs.*—Payment amounts for capital-related payments for PPS hospitals would be reduced by 3.5 percent for portions of cost reporting periods in fiscal year 1987, 7 percent for fiscal year 1988, and 10 percent for fiscal year 1989. Sole community hospitals would be exempt from payment reduc-

tions, and regulations, if provided, for a period of 3 years. The conference agreement clarifies that the Secretary may incorporate capital, on a "budget neutral" basis, into the prospective payment system effective October 1, 1987.

4. *Coverage of Hospitals in Puerto Rico in the PPS.*—Hospitals located in Puerto Rico will be included in PPS, effective with discharges occurring on or after October 1, 1987. Payment amounts would be based on 75 percent of Puerto Rico adjusted standardized amount and 25 percent of the national adjusted standardized amount. Requires the Secretary to calculate an average standardized amount for urban and rural hospitals. The Secretary would be required to restandardize the national PPS rates to take into account Puerto Rico's inclusion. With some adjustments applied, payments for indirect medical education costs, outliers, and disproportionate share payments will be made to a similar extent that they apply to other PPS hospitals.

5. *Improving Quality of Care with respect to Part A Services.*—The Secretary would be required to submit, no later than 2 years after enactment, a legislative proposal to improve the classification and payment system under PPS to better account for severity of illness and case complexity.

Hospitals would be required to provide, upon admission, a notice of hospital discharge rights. Would require hospitals, as a condition of medicare participation, to have a discharge planning program. Would require the Secretary to conduct a study of standards of quality used for the conditions of medicare participation for hospitals. The Secretary would be required to conduct a study to determine if a payment should be made for administratively necessary days.

Favorable presumption of waiver of liability rules would be extended for hospices through November 1, 1988. The favorable presumption of waiver of liability will be extended to cover homebound and intermittent care denials for home health services.

Would require the Secretary to develop a uniform needs assessment instrument that evaluates functional capacity to be used in evaluating the need for post-hospital care services.

Would extend the requirement for PPS annual reports through 1989. Would require the Secretary to include information on quality of post-hospital care in the annual reports.

The Secretary will be required to conduct a demonstration program concerning prior authorization for medicare skilled nursing facilities and home health services.

6. *Technical Amendments and Miscellaneous Provisions Relating to Part A.*—(a) Connecticut Hospice, Inc. would receive a 2 year waiver of the inpatient day requirement provided that the proportion of the inpatient days does not exceed 50 percent and (b) Prohibits the Secretary from recouping payments to Massachusetts hospitals on or after the date of enactment and before January 1, 1988.

7. *Payments to Large Rural Hospitals Serving a Disproportionate Share of Low-Income Patients.*—Allows the Secretary, effective with discharges occurring on or after October 1, 1986, to establish a separate threshold percentage of low-income patients required for

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rural hospitals with 500 or more beds to qualify for disproportionate share payments.

Payment to disproportionate share hospitals would be continued for one additional year in a budget neutral fashion.

8. *Periodic Interim Payments and Prompt Payment of Claims.*—Periodic Interim Payments (PIP) would be elminated for all PPS hospitals with exceptions. Hospitals with a disproportionate share payment add-on of 5.1 percent or more and rural hospitals with less than 100 beds that qualified for, and receive PIP payments on June 30, 1987, (under regulations in effect on October 1, 1986), would be eligible to continue to receive PIP. PIP would also be retained for PPS-exempt hospitals, hospitals participating in State reimbursement systems, and certain cost-based providers (i.e., skilled nursing facilities and home health agencies). PIP would be made available to hospice providers.

Ninety-five percent of "clean" claims submitted for part A services would be required to be paid within 30 calendar days in fiscal year 1987, 26 days in fiscal year 1988, 25 days in fiscal year 1989, and 24 days in fiscal year 1990 and in subsequent years. PIP would not be eliminated for hospitals receiving such payments until the intermediary has met the prompt payment standard for 3 consecutive months. PIP would be reinstated for providers that meet the standards that were in place as of October 1, 1986, if the intermediary failed to meet prompt payment standards for 3 consecutive months.

Ninety-five percent of "clean" claims submitted for part B services would be required to be paid within 30 calendar days in fiscal year 1987, 26 days in fiscal year 1988, 25 days in fiscal year 1989, and 24 days in fiscal year 1990 and in subsequent years. "Clean" claims submitted by participating physicians would be required to be paid within 19 days in fiscal year 1988, 18 days in fiscal year 1989, and 17 days in fiscal year 1990 and in subsequent years.

9. *Health Maintenance Organization Amendments.*—Would eliminate the "two for one rule" for current nonrisk HMO medicare enrollees for months beginning April, 1987.

Would require HMOs and CMPs to provide enrollees with an explanation of enrollees' rights.

Would restrict new waivers of 50 percent medicare and medicaid enrollment requirements to HMOs in service areas where the population of medicare and medicaid beneficiaries is greater than 50 percent and to HMOs that are publicly owned and operated. Would provide new sanctions for noncompliance with the 50 percent medicare and medicaid enrollment requirement, and for noncompliance with enrollment goals for currently waivered HMOs.

Would require that HMOs pay claims submitted by physicians, suppliers and providers not under contract with the organization, within 30 calendar days of receipt in fiscal year 1987, within 26 days in fiscal year 1988, within 25 days in fiscal year 1989, and within 24 days in fiscal year 1990 and in subsequent years.

Would require that HMOs and CMPs supply, on request of the Secretary, information as to the ownership of subcontractors, and of significant business transactions between organizations and wholely owned subcontractors.

Provides that HMOs that fail substantially to provide medically necessary items and services would be subject to a penalty not to exceed $10,000 for each failure.

Would require the Secretary to provide for a study of methods by which the AAPCC and the ACR could be refined, and to submit legislative recommendations no later than January 1, 1988.

Would allow medicare beneficiaries to disenroll from an HMO or CMP at a local Social Security Office.

Provides that amounts withheld in a benefit stabilization fund during the 1986 contract year be withdrawn by the organization to the extent that payments to the organization had been reduced under the Balanced Budget and Emergency Deficit Control Act of 1985.

10. *Provisions Relating to Improvement of Quality of Care.*—Allows provider representation of beneficiaries on appeals, but would prohibit provider representation with respect to certain issues unless the provider has waived any rights for payment from the beneficiary for services involved in the appeal. Would prohibit provider representing the beneficiary from imposing any financial liability on the beneficiary in connection with representation.

Would provide beneficiaries with the right to appeal payment denials for home health services that do not meet the "intermittent or home bound" criteria.

Would prohibit a hospital from making incentive payments to a physician as an inducement to reduce services to beneficiaries, effective with payments occurring 6 months after enactment. Prohibits HMOs and CMPs from making such payments to a physician effective April 1, 1989. Requires the Secretary to study and report on incentive plans offered to physicians by HMOs and CMPs no later than January 1, 1988.

Requires the Secretary to arrange for a study to serve as the basis for establishing a strategy for reviewing and assuring quality of care under medicare.

11. *Technical Amendments and Miscellaneous Provisions Relating to Parts A and B.*—

(a) *Treatment of Group Purchasing Organizations.*—Permits the payment of administrative fees to group purchasing organizations by a vendor of the purchasing agent if the agent has an appropriate written contract and full disclosure of the payment is made of the payment to each provider.

(b) *Competitive Contracting Authority.*—Extends the authority of the Secretary to enter into competitively bid contracts with intermediaries and carriers to replace poor performing contractors for additional 3 years and clarifies language to include fixed-priced contracts.

(c) *Moratorium on HCFA Regulations.*—The Secretary would be prohibited from issuing any regulations or notices regarding hospitals or physicians before September 1, 1987, which would achieve medicare savings of more than $50 million in FY 1988.

The Secretary would be prohibited from issuing final regulations that change the methodology for computing the amount of payment for capital-related costs for inpatient hospital services under part A before September 1, 1987.

The agreement would also require the Secretary to allow 60 days for public comment on proposed regulations and notices, except for limited circumstances when such comment periods are not possible due to statutorily imposed deadlines for Secretarial action.

12. *Direct Costs of Graduate Medical Education.*—Would provide that time spent in a non-hospital outpatient setting would be counted for medicare reimbursement purposes if the hospital incurs all or substantially all of the costs of residency training in the ambulatory setting.

13. *Cost Limits for Home Health Agencies.*—Would require that limits for home health agency costs be applied on an aggregate basis for all home health services, rather than on a discipline-specific basis, effective with cost-reporting periods beginning on or after July 1, 1986.

14. *Establishment of Research Program.*—Would require the Secretary to provide for a research program on patient outcomes of selected medical treatments and surgical procedures.

15. *Civil Monetary Penalty and Exclusion Provisions.*—Would prohibit individuals who have been convicted of a Federal crime from relitigating the essential elements of the criminal offense in a subsequent civil proceeding to bar the individual from the medicare or medicaid program, or to impose civil monetary penalties. The official conducting such a hearing would have the authority to sanction a person for failing to comply with an order or procedure, failing to defend an action, or other interfering misconduct.

16. *Hospital Protocols for Organ Procurement and Standards for Organ Procurement Agencies.*—Would require, effective July 1, 1987, that no hospital may participate in medicare or medicaid unless the hospital has established protocols for encouraging organ and tissue donation. Would prohibit payment, effective January 1, 1988, under medicare and medicaid with respect to costs of procuring organs, by an organ procurement organization that does not meet the national organ transplant network standards.

17. *Medicare as Secondary Payer, Coverage Requirements of Certain other Payers.*—Medicare would be the secondary payer for disabled beneficiaries (except ESRD beneficiaries) who elect to be covered by employer-based health insurance as a current employee (or family member of such employee) of an employer with 100 or more employees. This provision would expire on January 1, 1992. Would require the Secretary to study the impact of this provision.

18. *Coverage of Services of Nurse Anesthetists.*—Extends current payment provisions for the services of hospital-employed CRNAs for cost reporting periods beginning before October 1, 1988.

Authorizes direct reimbursement for anesthesia services and related care furnished by a registered nurse anesthetist for which he/she is legally authorized to perform in the State. These payments would be made equal to the lower of 80 percent of actual charges or 80 percent of a fee schedule established by the Secretary. This provision is to be budget neutral. CRNAs would be required to accept assignment for all medicare services. The fee schedule would apply to services provided after October 1, 1988. Special limits on the actual charges of nonparticipating physicians for CRNA services and medical direction would apply.

19. *Payments for Physicians' Services.*—Provides that all physicians would receive a 3.2 percent increase in their prevailing charges effective January 1, 1987. In 1988 and in future years, prevailing charges would be increased by the percentage increase in the MEI. The Secretary would be prohibited from revising the cumulative MEI on a retrospective basis. The current differential in the prevailing charges of participating and nonparticipating physicians would be made permanent.

Would require the Secretary to conduct a study of the MEI to ensure that the index reflects economic changes in an appropriate and equitable manner. The Secretary would be precluded from changing the methodology used to determine the MEI until completion of the study.

Includes a limitation on the actual charges of nonparticipating physicians, such that over a four-year period, the actual charges of nonparticipating physicians would be capped by an amount equal to the maximum allowable actual charge (MAAC), calculated for each physician in relation to the prevailing charge. The limitation on actual charges would expire on December 31, 1990, or one year after the submission by the Secretary to the Congress of the required report on relative value scales, whichever occurs earlier.

20. *Inherent Reasonableness; Payments for Cataract Surgery.*—Would authorize the Secretary, under the inherent reasonableness authority, to establish payment levels for a physician service based on considerations other than the actual, customary, or prevailing charge for the service. Criteria and procedures for adjusting payments are specified. The Secretary would be required to review payments under this section for 10 of the most costly procedures covered under part B. If an adjustment is made on the basis of the inherent reasonableness authority that results in a payment reduction, a special limit would be applied to the actual charges of nonparticipating charges for that service.

Would specify that the prevailing charges for participating and nonparticipating physicians performing cataract surgery would be cut by 10 percent, effective January 1, 1987. An additional 2 percent reduction would be made effective January 1, 1988. In no case would the reduced allowable charge be lower than 75 percent of the national average prevailing charge. The Secretary would be required to publish, in final form, a proposed notice that would reduce payment for cataract surgery anesthesia.

Nonparticipating physicians performing cataract surgery services and cataract surgery anesthesia would be required to reduce their actual charges for these services effective January 1, 1987.

21. *End Stage Renal Disease Program.*—The Secretary would be required to reduce the composite rate payments for dialysis services by $2 for services furnished on or after October 1, 1986. The Secretary would be prohibited from revising the composite rates for two years. An application for a payment rate exception for sole facilities located in isolated rural areas would be deemed approved unless the Secretary had disapproved the application within 60 working days.

Would provide that immunosuppressive drugs furnished to a transplant patient within one year of a transplant would be covered under part B of medicare.

The Secretary would be required to establish no fewer than 17 ESRD network areas. Funding for the networks will be provided by reducing the per treatment composite rate to facilities by $.50 per treatment. The Secretary would be required to designate the network areas not later than May 1, 1987, and establish them by July 1, 1987. New networks would be required to designate the network areas not later than May 1, 1987, and establish them by July 1, 1987. New networks would be established using competitive bidding procedures under specified guidelines. The existing network organizations would remain in operation until 30 days after the new network organizations begin operations. A national end stage renal disease registry is to be established.

The Secretary would be required to establish standards and conditions of participation for safe and effective dialyzer reuse and reprocessing by medicare certified ESRD facilites to be effective October 1, 1987.

22. *Technical Amendments and Misc. Provisions Relating to Part B.*—

(a) *Physician Payment Review Commission.*—Would expand the membership of the Physician Payment Review Commission by 2 members. At least one of the members would represent a rural area.

(b) *Effective Date on Voluntary Disenrollment from Medicare.*—Would modify the effective date of disenrollment from medicare when a beneficiary files a notice to disenroll to the close of the calendar quarter in which the notice was filed.

(c) *Study of Prospective Payment of Radiology, Anesthesia and Pathology Services to Hosptials Inpatient Services.*—Would require the Secretary to study and report by July 1, 1987, concerning the implementation of a part B prospective payment system for radiology, anesthesia and pathology services furnished to hospital inpatients.

23. *Vision Care.*—Would allow payment under medicare for vision care services performed by optometrists, if the services are among those already covered by medicare when furnished by a physician, and if the optometrist is authorized by state law to provide the services, effective for services furnished on or after April 1, 1987.

24. *Occupational Therapy Service.*—Would extend part B coverage of occupational therapy services to services provided in skilled nursing facilities (when part A coverage has been exhausted) in a clinic, rehabilitation agency, or public health agency, or by others in arrangements with such entities.

Would also extend part B coverage to occupational therapy services furnished by an independently practicing therapist in a therapist's office or in a beneficiary's home. Reimbursement would be provided on the basis of 80 percent of reasonable charges, with no more than $500 in incurred expenses eligible for coverage in a calendar year.

These provisions would be effective for occupational therapy services furnished on or after July 1, 1987.

25. *Coverage of Services of a Physician Assistant.*—Would authorize coverage of the services of physicians' assistants furnished under the supervision of a physician in a hospital, skilled nursing

facility (SNF), intermediate care facility (ICF), or as an assistant at surgery. Physician assistant services would be reimbursed subject to a prevailing charge screen equal to 85 percent of the prevailing charge for comparable physician services performed by nonspecialists when such services are performed in a skilled nursing facility or intermediate care facility. The prevailing charge screen would be equal to 75 percent of the nonspecialist physicians prevailing charge level when such services are performed in a hospital, and 65 percent of the reasonable charge for a physician when acting as an assistant at surgery. Physician assistants would be required to accept assignment on all claims. This provision is effective with services furnished on or after January 1, 1987.

The Secretary would be required to report to Congress by April 1, 1988, concerning appropriate adjustments to payments for physician assistant services.

26. *Payment of Clinical Diagnostic Laboratory Tests.*—Would eliminate the 2-percent differential between hospital outpatient labs and independent labs (except in the case of qualified clinical labs which operate 24 hours per day), effective January 1, 1987. The January 1, 1988, sunset provision on fee schedules for such laboratory services would be eliminated. The Secretary would be required to report to Congress, not later than April 1, 1988, on the advisability, and feasibility of, and methodology for, establishing a national fee schedule for clinical diagnostic laboratory tests. Implementation of the national fee schedule would be postponed for two years, until January 1, 1990.

Would authorize the Secretary to establish a fee to cover, in certain situations, transportation and personnel expenses for trained personnel to travel to the location to collect the sample, effective January 1, 1987.

The moratorium on the competitive bidding demonstration project would be extended until January 1, 1988.

27. *Payment for Parenteral and Enteral Nutrition.*—The Secretary would be permitted to apply lowest charge level limitations to parenteral and enteral nutrition supplies. The provision would be effective for parenteral nutrients on October 1, 1987, and for all other services and supplies on January 1, 1987. The Secretary would be prohibited from using "inherent reasonableless" in establishing the lowest charge level.

28. *Changing Medicare Appeal Rights.*—Provides that beneficiaries may obtain an administrative law judge hearing if the amount in controversy is $500 or more and judicial review if the amount in controversy is over $1,000. National coverage determinations could not be overturned solely on the grounds that they were not issued in accordance with the notice and comment procedures in the Administrative Procedures Act, as amended. The court could, however, review coverage determinations to determine whether the result was arrived at in an arbitrary manner.

Regulations and policy instructions issued prior to October 1, 1979, could not be declared invalid. In the case of policies which are invalidated by the court, the Secretary could not be required to reopen and reprocess claims previously resolved, except with respect to the litigants. The Secretary could be required to implement a new policy prospectively.

29. *Alzheimer's Disease Demonstration Projects.*—Would require the Secretary to conduct up to 10 demonstration projects to determine the effectiveness, cost and impact of providing comprehensive services to Medicare beneficiaries who have Alzheimer's disease or related disorders. Total expenditures cannot exceed $40 million over three years.

30. *Ambulatory Surgery.*—Effective for cost reporting periods beginning on or after October 1, 1987, a new payment methodology would apply for facility services provided by hospital outpatient departments (OPDs) in connection with ambulatory surgery procedures. Payment would be based on a blend of the amount that would be paid to a hospital under cost reimbursement and the amount that would be paid to a freestanding ambulatory surgery center (ASC) for the same service. During the first cost reporting year the blend would be 75 percent cost and 25 percent ASC rate; during the second cost year and subsequently, the blend would be 50 percent cost and 50 percent ASC rate. A 20 percent coinsurance would apply to services provided by hospital OPDs and ASCs in connection with ambulatory surgery. The Secretary would be required to submit a final report concerning development of a prospective payment methodology for ambulatory surgery services by April 1, 1989.

31. *Peer Review Organizations.*—Procedures for appeal of hospital denials of continued inpatient stay would be modified to ensure that a beneficiary who makes an appeal is not liable for continued stay until noon on the day after receiving notice of the PRO's decision. PRO review of early readmission cases would be expanded. The requirement that PROs review services provided by HMOs and CMPs would be delayed from January 1 to April 1, 1987. In up to 25 States containing up to 50 percent of the medicare beneficiaries enrolled in HMOs or CMPs, the Secretary could provide for a State-by-State competition for review of HMO and CMP services. The current PRO in those States could compete for these contracts as could other entities provided that such entities satisfy requirements contained in sections 1152 and 1153(b) of the Social Security Act. In the remaining 25 States, review must be conducted by the PROs for those States. A consumer representative would be required on each PRO governing board. PROs would be required to review beneficiary complaints concerning quality. PROs would be required to share certain confidential information with State licensure agencies and with national accreditation bodies.

32. *Continuation Coverage for Retirees in Cases of Bankruptcies.*—Beginning on or after July 1, 1986, any retiree and dependents, who lose their employer-based health insurance coverage because their employer filed for Chapter 11 bankruptcy, would be entitled to remain in the employer health insurance plan if the retiree pays up to 102 percent of the applicable premium. The retiree, the widow of the retiree, and the spouse and dependent children of the retiree may remain in the health plan until the death of the retiree. Upon the death of the retiree the surviving spouse and the dependent children may remain in the group health plan for up to 3 years.

Reports and Studies

The following is a list of studies and reports required by law which are either past due or to be concluded in the next 3 years.

Topic	Due date
PAST DUE	
Secretary of HHS to submit a report, including legislative recommendations, to Congress on the feasibility of establishing a single coordinated process for the collection of overpayments established in coordinated audit under the Social Security Act. (section 914(b)(4), Public Law 96–499).	December 31, 1981.
Secretary of HHS to submit a report, including legislative recommendations, to Congress on actions taken (1) to coordinate the conduct of institutional audits and inspections which are required under the programs funded under titles V, XVIII or XIX of the Social Security Act, and (2) to coordinate such audits and inspections with those conducted by other cost payors. (section 914(d), Public Law 96–499).	December 31, 1981.
Secretary of HHS to report with legislative recommendations on demonstration project to determine (1) the extent to which the commencement of nutritional therapy in early renal failure can retard or arrest the progression of the disease and the administrative, financial, and other aspects of making such nutritional therapy generally available under medicare. (section 958(h), Public Law 96–499).	December 5, 1982.
Secretary of HHS to report with legislative recommendations on demonstration project to determine the administrative, financial, and other aspects of making the services of clinical social workers more generally available as part of the benefits received under medicare. (section 958(h), Public Law 96–499).	December 5, 1982.
Secretary of HHS to submit report and legislative recommendations to Congress on demonstration projects to determine the feasibility of creating a single coordinated appeal hearing to adjudicate cost items which are determined under common audits under the Act and which are disputed and appealed. (section 914(b)(3), Public Law 96–499).	December 31, 1982.
Secretary of HHS to conduct and promptly complete all studies and experiments required under present law which pertain to the use of, and reimbursement for, nutritional therapy; and that the Secretary transmit a full and complete report with respect to each study and experiment. (Public Law 97–35).	January 1, 1983.
Secretary of Health and Human Services shall submit report and legislative recommendations to the Congress on an evalaution of the effectiveness of the program of transition allowances to promote closing and conversion of underutilized hospital facilities. (Sec. 2101, Public Law 97–35; H.R. 3982.) (See sec. 2353, Public Law 98–369; H.R. 4170.).	January 1, 1983.
Secretary of Health and Human Services shall report to the Committee on Ways and Means and the Committee on Finance on proposals developed for prospective reimbursement of skilled nursing facilities under medicare (as required under sec. 1135(c) of the Social Security Act. (Sec. 2319(f)(1), Public Law 98–369; H.R. 4170.).	August 1, 1984.
Secretary of HHS is directed to conduct a study and report to Congress on further refinements which may be appropriate in the inpatient hospital prospective payment provisions of medicare, in order to address the problems of differences in payment amounts to specific hospitals. The study will include (but not limited to) the degree of variation in inpatient hospital costs per discharge within each DRG. The Secretary is directed to present alternative methods of computing the amount of such payments. The study will include a discussion of the relative merits of a method of payment under which a percentage of the payment amount could be determined on a regional basis. (section 2311(f), Public Law 98–369).	September 1, 1984.
Secretary of HHS is directed to review and report findings to the Congress on the urban/rural payment differential with respect to DRG's were a substantial part of the treatment involves non-labor costs. In addition, the Secretary is directed to study the advisability and feasibility of varying by DRG the portion of the labor and non-labor components of the Federal payment amount. (section 2311(e), Public Law 98–369).	January 8, 1985.

Topic	Due date
Secretary of HHS shall submit a report and legislative recommendations to the Congress on an evaluation of the effectiveness of the program of transitional allowances to promote closing and conversion of underutilized hospital facilities, and include in the report an analysis as to how and whether implementation of the closure and conversion provision as modified could result in achieving reductions in the total cost of hospital inpatient services and medicare expenditures. (section 2101, Public Law 97–35; section 2353, Public Law 98–369).	March 31, 1985.
Secretary of HHS shall make legislative recommendations to the Congress with respect to an equitable method of reimbursing sole community hospitals which takes into account their unique vulnerability to substantial variations in occupancy. (section 603(a)(3)(A), Public Law 98–21).	April 1, 1985.
Secretary of HHS shall examine ways to coordinate an information transfer between parts A and B under medicare, particularly with respect to those cases where a denial of coverage is made under part A of medicare; and no adjustment is made in the reimbursement to the admitting physician or physicians. (section 603(a)(3)(B), Public Law 98–21).	April 1, 1985.
Secretary of HHS shall report to the Congress on the appropriate treatment of uncompensated care costs, and adjustments that might be appropriate for large teaching hospitals located in rural areas. (section 603(a)(3)(C), Public Law 98–21).	April 1, 1985.
Secretary of HHS shall monitor and report to Congress on physician services during the fee freeze in order to determine any changes in the per capita volume and mix of services provided to beneficiaries under part B, classified by participating and nonparticipating physicians, by assigned and nonassigned claims, by specialty, and be geographic area including legislative recommendations. (section 2306(d), Public Law 98–369).	July 1, 1985.
Secretary of HHS shall report to Congress on the advisability and feasibility of making payments for physicians services furnished to hospital inpatients based on a diagnosis-related group system and to make legislative recommendations. (section 603(a)(2)(B), Public Law 98–21; section 2317, Public Law 98–369).	July 1, 1985.
An expert commission to study medicare prospective payment shall report to Congress on its evaluation of any recalibration the Secretary of HHS may make in DRG's (Public Law 98–21).	After fiscal year 1986.
Secretary of HHS shall study the advisability of allowing home health services to be provided under the supervision of a physical therapist or other health care professional, rather than requiring the supervision of a physician or registered nurse. (section 9218(a)), Public Law 99–272.	September 30, 1986.
Secretary of HHS shall conduct a study on the advisability of deleting the requirement that a physical therapist must have an office equipped with specific equipment, even if such therapist provides all such services in the patients' homes. (section 9218(b)), Public Law 99–272.	September 30, 1986.
Secretary of Health and Human Services shall conduct a study and report to the Congress on higher medicare payment rates for sole community hospitals as a result of needed expansion of services at such hospitals. (Sec. 9111(c), Public Law 99–272; H.R. 3128.).	December 31, 1986.
The Comptroller General is directed to report to Congress on the appropriateness of the outpatient diagnostic laboratory fee schedule and their impact on the volume and quality of clinical laboratory services, the potential impact of the adoption of a national fee schedule and the impact such a fee schedule would have on hospital outpatient services. GAO is directed to report on any changes in the volume of lab tests done by physicans or labs. The Secretary of HHS is directed to report on the advisability and feasibility of a system of direct payment to any physicians for all clinical diagnostic lab tests ordered by such physicians. (section 2303(i)(1)(2), Public Law 99–369.	January 1, 1987.
The Congressional Budget Office shall study and report to Congress on the impact of the implementation of section 9105 of P.L. 99–272 on hospitals with respect to payments for hospitals which serve a disproportionate share of low-income patients. (section 9105(d)), Public Law 99–272.	January 1, 1987.

Topic	Due date
Secretary of HHS shall conduct a study on the effects of the amendment made by section 9111(a) relating to payments to sole community hospitals. The report shall include recommendations for a permanent mechanism to take into acccunt needed expansions of services by sole community hospitals and the hospital-specific medicare payments thereof. (section 9111(c)), Public Law 99–272.	January 1, 1987.
Secretary of HHS shall review and report to Congress on the impact of policies respecting outliers and patient transfers on payments made under section 1886(d) of the Act to rural hospitals, particularly on rural hospitals with less than 100 beds. (section 9113(a)), Public Law 99–272.	January 1, 1987.
Comptroller General shall report to the Congress on the appropriateness of fee schedules under sec. 1833(h) of the Social Security Act—clinical diagnostic laboratory tests—their impact on the volume and quality of such tests. (Sec. 2303(i) (1) and (3), Public Law 98–369; H.R. 4170.).	January 1, 1987.
Secretary of Health and Human Services after consultation with the Physician Payment Review Commission, shall develop recommendations and guidelines, and report to the Congress, respecting surgical procedures for which an assistant at surgery is generally not medically necessary and the circumstances under which the use of an assistant at surgery is generally appropriate but should be subject to prior approval of an appropriate entity. (Sec. 9307(d), Public Law 99–272; H.R. 3128.).	January 1, 1987.
Secretary of HHS shall report to Congress on the methods to be used for monitoring and enforcing compliance concerning the restriction of transfers until a patient is stabilized, implemented by section 1867 of the Act. (section 9121(d)), Public Law 99–272.	February 1, 1987.
NOT YET DUE	
Secretary of HHS shall report to Congress on the frequency and distribution of denials of bills for payment for extended care services, home health services, and hospice care, because care was not reasonable and necessary or was custodial, and other information needed to evaluate the appropriateness of denial rates established for a favorable presumption. (section 9305(g)(2), Public Law 99–509.	March 1987, March 1988.
Secretary of HHS shall submit to Congress a full report on the progress made in establishing the national end stage renal disease registry under section 9335(i)(1). (section 9335(i)(2)), Public Law 99–509.	April 1, 1987.
Secretary shall report to Congress concerning adjustments to the amount of payment made, under medicare part B, for services described in section 1861(s)(2)(K) of the Act to ensure that the amount reflects the approximate cos of furnishing the services, taking into account compensation costs and overhead and supervision costs attributable to physician assistants. (section 9338(e)), Public Law 99–509.	April 1, 1987.
Secretary of HHS shall report to Congress on the standards that might be established under the medicare program for clinical laboratories which are part of or associated with a physician's office to assure the health and safety of individuals with respect to whom the laboratories perform clinical diagnostic laboratory tests for which payment may be made under the program. (section 9303(C)), Public Law 99–272.	April 7, 1987.
Secretary of HHS, in consultation with the Prospective Payment Assessment Commission, shall report to Congress on information collected and methodologies developed to permit the adjustment of the wage indices to more accurately reflect hospital labor markets. (section 9103(b)), Public Law 99–272.	May 1, 1987.
Secretary of HHS shall submit to Congress a report concerning the design and implementation of a prospective payment system for payment, under medicare part B, for radiology, anesthesia, and pathology services furnished to hospital inpatients. (section 9344(c)), Public Law 99–509.	July 1, 1987.
Secretary of HHS shall report to Congress on the development of a relative value scale for physician services that establishes a numerical relationship among the various physicians' services for which medicare and medicaid payments are made. (section 9305(b)), Public Law 99–272.	July 1, 1987.
Secretary of HHS shall conduct a study and report to the Committee on Finance of the Senate and the Committees on Ways and Means and Energy and Commerce of the House of Representatives with respect to approved educational activities relating to nursing and other health professions for which reimbursement is made to hospitals under medicare. (section 9202(c)(1)), Public Law 99–272.	December 31, 1987.

Topic	Due date
The Comptroller General shall conduct a study of the variation in the amounts of payments made under title XVIII of the Act with respect to patients in different teaching hospital settings and in the amounts of such payments which are made with respect to patients who are treated in teaching and nonteaching hospital settings. (section 9202(d)), Public Law 99–272.	December 31, 1987.
Secretary of HHS shall report to Committee on Finance of the Senate and Committees on Ways and Means and Energy and Commerce of the House of Representatives on whether section 1886(h) of the Act should be revised to provide greater uniformity in the approved FTE resident amounts established under paragraph 2 of the Act. (section 9202(e)), Public Law 99–272.	December 31, 1987.
Secretary of HHS shall study and report to the Committee on Finance of the Senate and Committees on Ways and Means and Energy and Commerce of the House of Representatives with respect to the use of physicians who are foreign medical graduates in the provision of health care services to medicare beneficiaries. (section 9202(f)).	December 31, 1987.
Secretary of HHS shall include in its annual reports on PPS information on quality of post-hospital care. (section 9305(i)), Public Law 99–509.	
Secretary of HHS shall provide for a study to evaluate the effects of reductions in the rates of payment for facility and physician services' under the medicare program for patients with end stage renal disease on their access to care or on the quality of care. (section 9335(b)), Public Law 99–509.	January 1, 1988.
Secretary of HHS shall submit to Congress a legislative proposal concerning methods by which the average adjusted per capita cost (AAPCC) and adjusted community rate (ACR) can be refined to more accurately reflect the cost of providing care to different classes of patients. (section 9312(g)), Public Law 99–509.	January 1, 1988.
Secretary of HHS shall report to Congress on the types of physician arrangement plans commonly in use by HMOs and CMPs, and evaluate their potential to limit or reduce medical services, and make recommendations regarding appropriate plans which may encourage efficiency in utilization of services without posing a potential for an adverse effect on quality. (section 9313(c)(3)), Public Law 99–509.	January 1, 1988.
Secretary of HHS is directed to report to Congress with respect to the use of stabilization funds by eligible organizations under section 1876(g)(5) of the Act and shall assess the need for such funds. (section 2350(b)(4)), Public Law 98–369).	January 18, 1988.
Secretary of Health and Human Services shall submit a final report to the Congress on social health maintenance organization projects. (Sec. 2355(d)(2), Public Law 98–369; H.R. 4170.).	January 18, 1988.
The Comptroller General shall study and report to Congress on the appropriateness and impact on medicare beneficiaries of applying per visit home health agency cost limits on a discipline-specific basis, rather than on an aggregate basis; and the appropriateness of the percentage established in regulation. (section 9315(c)), Public Law 99–509.	February 1, 1988.
Secretary of HHS shall report to Congress on the advisability and feasibility of, and methodology for, establishing national fees schedule for payment for clinical diagnostic laboratory tests under section 1833(h) of the Act. (section 9339(b)(3)), Public Law 99–509.	April 1, 1988.
Secretary of HHS shall submit an interim and final report on the development of a prospective payment methodology for outpatient hospital services. (section 9343(f)), Public Law 99–509.	April 1, 1988, April 1, 1989.
Secretary of HHS shall establish a patient outcome assessment research program to promote research with respect to patient outcomes of selected medical treatments and surgical procedures for the purpose of assessing their appropriateness, necessity and effectiveness to be administered by the National Center for Health Services Research and Health Care Technology. (section 9316), Public Law 99–509.	April 21, 1988.
Secretary of HHS shall shall study and report to Congress on the adequacy of the standards used for hospitals, for purposes of meeting the conditions of participation, in assuring the quality of services furnished in hospitals. (section 9305(d)), Public Law 509.	October 21, 1988.

Topic	Due date
Secretary of HHS shall report to Congress on a legislative proposal to improve the classification and payment system under section 1886(d) of the Social Security Act (and, as appropriate, the system for payment of outliers) in order to assure that the amount per discharge approximates the cost of medically necessary care provided in an efficient manner for individual patients or classes of patients with similar conditions. This proposal shall account for variations in severity of illness and cases complexity. (section 9305(a)), Public Law 99–509.	October 21, 1988.
Secretary of HHS shall report to Congress its findings of a study to develop a strategy for quality review and assurance under the medicare program. (section 9313(d)), Public Law 99–509.	October 21, 1988.
Secretary of HHS shall report to Congress on the development of a uniform needs assessment instrument(s) that evaluates the functional capacity of a beneficiary, and requirements to meet health care needs which can be used by discharge planner, health care providers and intermediaries in evaluating the beneficiary's need for post-hospital health care or services. (section 9305(h)), Public Law 99–509.	January 1, 1989.
Secretary of HHS shall report to Congress on a study to determine whether a payment should be made (in a budget neutral fashion) to hospitals for administratively necessary days, separate from the per-discharge and outlier payments. (section 9305(e)), Public Law 99–509.	January 1, 1989.
Secretary of HHS shall report to Congress of its findings from a demonstration project concerning prior and concurrent authorization for post-hospital extended care services and home health services furnished under medicare part A and part B. (section 9305(k)), Public Law 99–509.	February 1, 1989.
Secretary of HHS shall report to the Committee on Finance of the Senate and Committees on Ways and Means and Energy and Commerce of the House of Representatives on the progress made in the demonstration program, required by section 9314 of P.L. 99–272, including a description of the sites at which the program is being conducted and the preventive health services begin provided at the different sites. (section 9314(e)(1)), Public Law 99–272.	April 7, 1989.
Secretary of HHS shall report to Congress on the results of the amendments made by section 1164 of the Act relating to 100 percent peer review of certain surgical procedures. (section 9401(e)), Public Law 99–272.	April 7, 1989.
The Comptroller General shall study and report to Congress on the impact of the amendments made by section *ERR97*9319 of P.L. 99–509 (relating to medicare as secondary payor for disabled employees of certain large employers) on access of disabled individuals and members of their family to employment and health insurance. (section 5000(e)), Public Law 99–509.	March 1, 1990.
Secretary of HHS shall conduct a study and report to the Committee on Finance of the Senate and the Committees on Ways and Means and the Energy and Commerce of House of Representatives with respect to the advisability of continuing or terminating the exception under section 1886(h)(5)(F)(ii) of the Act for geriatric residencies and fellowships, and of expanding such exception to cover other eductional activities. (section 9202(c)(2)), Public Law 99–272.	July 1, 1990.
Secretary of HHS shall submit to the same committees mentioned above a final report on the demonstration program required by section 9314 of P.L. 299–272. (section 9314(e)(2)).	April 7, 1991.
Secretary of HHS shall report to Congress on a rural secondary specialty demonstration project which is to determine the effect that a modified system of making payments under part A to such centers would have on total expenditures under such part and the access of medicare beneficiaries located in rural areas to quality health care. (section 9302(d)(4)), Public Law 99–509.	No certain date.
Secretary of HHS shall study and report to Congress of the extent to which the medicare economic index (MEI) appropriately and equitably reflects the changes in the provision of the physicians' services to medicare beneficiaries (section 9331(c)(4)), Public Law 99–509.	No certain date.
Secretary of HHS shall conduct a study and report to Congress on the advisability of redefining the localities designated by carriers for payment purposes. (section 9331(e)(1)), Public Law 99–509).	No certain date.

Topic	Due date
Secretary shall provide for an evaluation of the demonstration projects and shall submit to the Committees on Energy and Commerce and Ways and Means of the U.S. House of Representatives and the Committee on Finance of the Senate a preliminary report during the third year of the Alzheimer's Disease Demonstration Projects, required under section 9342(a) of P.L. 99–509, and a final report upon completion of the projects, which shall include legislative recommendations. (section 9342(d)), Public Law 99–509.	No certain date.
Secretary of HHS shall submit an interim report to Congress on a study evaluation the extent of, and reasons for, the termination by medicare beneficiaries of their memberships in organizations with contracts under sec. 1876 of the Act placing special emphasis on the quantity and quality of medical care provided in such organizations and the quality of such medical care provided in such organizations and the quality of such care when provided on a fee-for-service basis. (section 114(e), Public Law 97–248).	Within 2 years after implementation.
Secretary of HHS shall submit a final report to Congress on a study evaluating the extent of, and reasons for, the termination by medicare beneficiaries of their memberships in organizations with contracts under section 1876 of the Act placing special emphasis on the quantity and quality of such medical care provided in such organizations and the quality of such care when provided on a fee-for-service basis. (section 114(e), Public Law 97–248).	Within 5 years after implementation.
Board of Trustees to make a timely report to Congress of any amount (including interest) under the interfund borrowing authority that will expire December 31, 1982. (section 1, Public Law 97–123).	No date certain.
Secretary of HHS shall report on adjustments that may be required in medicare prospective payment amounts for such cases which have an unusually short length of stay or which are significantly less costly than the DRG payment with recommendations on how to address this issue. (Public Law 98–21).	No date certain.
Secretary shall conduct a study and report to Congress proposed criteria under which, in the case of a hospital that demonstrates to the Secretary in the current fiscal year that the adjustment being made under paragraph (2)(H) or (3)(E) of section 1886(d) of the Act for that hospital's discharges in that fiscal year does not accurately reflect the wage levels in the labor market serving the hospital. (section 2316(c), Public Law 98–369).	No date certain.
Secretary of HHS shall conduct a study and report to Congress of possible methods of reimbursement under medicare which would not discourage the use of certified registered nurse anesthetists. (section 2312, Public Law 98–369).	No date certain.
Secretary of HHS shall report on the advisability of continuing a fee schedule for hospital-based lab servicing hospital outpatients, and if advisable, the appropriate fee level. (H. Rpt. 98–861, p. 1305, Public Law 98–369).	No date certain.
Secretary of Health and Human Services shall review the report of the Director of the Office of Technology Assessment, due to be submitted to Congress by Dec. 31, 1985, on medicare part B payments to physicians. (Sec. 2309(c), Public Law 98–369; H.R. 4170.).	No date certain.

APPENDIX C. HEALTH STATUS, HEALTH INSURANCE, AND HEALTH CARE EXPENDITURES OF THE ELDERLY

Although the health status of the elderly appears to have been improving in recent decades, many of the elderly have conditions that require health care, sometimes in substantial amounts. Nearly all of the elderly have some insurance that protects them, at least partially, from the expenses arising from health care use. Many are well insured for their acute care needs—that is, for hospital and physician services. Others face greater risk of high out-of-pocket expenditures. This appendix reports on the health status, health insurance, and health care expenditures of the elderly.

Health Status

By various measures, the health status of the elderly population has been improving over the years. For example, life expectancy at age 65 has increased from 13.9 years in 1950 to 16.8 years in 1984 (see table 1). The improvements in life expectancy—or, alternatively, the declines in mortality rates—have been greater for females than for males. Morbidty indicators—such as the incidence of high blood pressure—also improved among those aged 65 to 74 years between the early 1960's and the late 1970's (see table 2).

TABLE 1.—LIFE EXPECTANCY AT BIRTH AND AT 65 YEARS OF AGE, BY SEX, UNITED STATES, SELECTED YEARS 1900–84

Year	At birth			At 65 years		
	Both sexes	Male	Female	Both sexes	Male	Female
	Remaining Life Expectancy in Years					
1900 [1, 2]	47.3	46.3	48.3	11.9	11.5	12.2
1950 [2]	68.2	65.6	71.1	13.9	12.8	15.0
1960 [2]	69.7	66.6	73.1	14.3	12.8	15.8
1970	70.9	67.1	74.8	15.2	13.1	17.0
1980	73.7	70.0	77.4	16.4	14.1	18.3
1984 [2, 3]	74.7	71.7	78.3	16.8	14.5	18.7

[1] Death registration area only; includes 10 States and the District of Columbia.
[2] Includes deaths of nonresidents of the United States.
[3] Provisional data.

Source: National Center for Health Statistics, Health, United States, 1985, DHHS Pub. No. (PHS) 86–1232, p. 40.

TABLE 2.—SELECTED HEALTH STATUS INDICATORS FOR PERSONS 65–74 YEARS OF AGE, BY SEX, 1960–62, 1971–74, AND 1976–80

Health status indicator	Both sexes			Male			Female		
	1960–62	1971–74	1976–80	1960–62	1971–74	1976–80	1960–62	1971–74	1976–80
	Percent of Population								
Borderline or definite elevated blood pressure [1]	73.8	70.3	63.1	65.9	65.4	62.0	80.3	74.1	63.9
Definite elevated blood pressure [2]	48.7	40.9	34.5	40.5	36.4	33.3	55.4	44.4	35.5
High-risk serum cholesterol levels [3]	37.3	31.3	27.2	20.8	19.9	18.1	50.8	40.0	34.3
Overweight [4]	34.6	31.5	32.7	23.8	23.0	25.2	43.3	38.0	38.5

[1] Borderline or definite elevated blood pressure is defined as either systolic pressure of at least 140 mmHg or diastolic pressure of at least 90 mmHg or both based on a single measurement.

[2] Definite elevated blood pressure is defined as either systolic pressure of at least 160 mmHg or diastolic pressure of at least 95 mmHg or both based on a single measurement.

[3] High-risk serum cholesterol levels are defined by age-specific cut points of the cholesterol distribution. For 40 years of age and over, high risk is greater than 260 milligrams/deciliter. Risk levels defined by NIH Consensus Development conference statement on lowering blood cholesterol, December 10, 1984.

[4] Overweight is defined for men as body mass index greater than or equal to 27.8 kilograms/meter ^{2}, and for women as body mass index greater than or equal to 27.3 milograms/meter ^{2}. These cut points were used because they represent the sex-specific 85th percentiles for persons 20–29 years of age in the 1976–80 National Health and Nutrition Examination Survey.

Source: National Center for Health Statistics, Health, United States, 1985, DHHS Pub. No. (PHS) 86–1232, pp. 76–79. Data are based on physical examinations of a sample of the civilian, noninstitutionalized population.

Despite the trend toward generally improved health status of the elderly, their needs for health care remain substantial. First, greater life expectancy merely postpones the inevitable need for terminal illness care. (About two-thirds of the deaths in the United States are of the elderly. A recent study found that the 6 percent of Medicare beneficiaries who died in 1978 accounted for 28 percent of Medicare expenditures.[1] Second, many of the elderly have one or more chronic conditions, many of which give rise to the need for continuing health care. Table 3 shows the incidence of several common chronic conditions among the elderly. Nearly half report having arthritis, 40 percent report high blood pressure, and nearly one-third report heart disease. The incidence of many chronic conditions is directly related to age and inversely related to family income.

Another common measure of health status is self-assessment, on a scale ranging from "excellent" to "poor." Over one-third of the elderly report their health to be excellent or very good, but another third report fair or poor health (see table 4). Lower-income elderly are more likely to report fair or poor health—over 40 percent of those with incomes under $10,000, compared to under 30 percent at incomes above this level.

TABLE 3.—NUMBER OF SELECTED CHRONIC CONDITIONS PER 1,000 ELDERLY PERSONS, BY AGE AND FAMILY INCOME, 1984

Type of chronic condition	All elderly	Age		Family income [1]		
		65–74	75 and over	Less than $10,000	$10,000 to $19,999	$20,000 to $34,999
Arthritis	490	463	533	594	406	522
Cataracts	150	100	230	206	126	94
Hearing impairment	311	258	396	346	317	266
Deformity or orthopedic impairment	173	164	186	236	146	148
Hernia of abdominal cavity	87	86	87	94	81	92
Diabetes	103	105	100	119	114	77
Heart disease	320	305	345	368	314	358
High blood pressure (hypertension)	406	397	421	479	419	385
Emphysema	42	40	45	50	44	57

[1] Too few elderly at incomes of $35,000 and above were surveyed to provide reliable estimates for most conditions.

Source: National Center for Health Statistics, Current Estimates from the National Health Interview Survey, United States, 1984, Vital and Health Statistics, Series 10, No. 156, pp. 81, 82, 87–90. Data are based on household interviews of the civilian, noninstitutionalized population.

[1] J. Lubitz and R. Prihoda, "The Use and Costs of Medicare Services in the Last Two Years of Life," Health Care Financing Review, Volume 5, 1984, pp. 117–131.

TABLE 4.—NUMBER OF ELDERLY PERSONS AND PERCENT DISTRIBUTION BY RESPONDENT-ASSESSED HEALTH STATUS, BY SEX AND FAMILY INCOME, 1984

Characteristic	All persons [1] (in thousands)	Respondent-assessed health status [2]					
		All health status [3]	Excellent	Very good	Good	Fair	Poor
All elderly [4]	26,433	100.0	15.9	20.4	31.5	20.9	11.3
Sex:							
Male	10,788	100.0	16.2	19.8	31.0	21.0	12.0
Female	15,645	100.0	15.7	20.7	31.9	20.8	10.8
Family income:							
Under $10,000	8,517	100.0	11.8	17.8	28.7	25.4	16.3
$10,000 to $19,999	7,368	100.0	15.6	20.1	34.9	20.4	9.1
$20,000 to $34,999	4,006	100.0	20.0	23.6	32.1	17.7	6.7
$35,000 and over	1,834	100.0	24.4	26.2	29.1	12.7	7.6

[1] Includes unknown health status.

[2] The categories related to this concept result from asking the respondent, "Would you say — health is excellent, very good, good, fair, or poor?" As such, it is based on the respondent's opinion and not directly on any clinical evidence.

[3] Excludes unknown health status.

[4] Includes unknown family income.

Source: National Center for Health Statistics, Current Estimates from the National Health Interview Survey, United States, 1984, Vital and Health Statistics, Series 10, No. 156, pp. 111, 112. Data are based on household interviews of the civilian, noninstitutionalized population.

Health Insurance

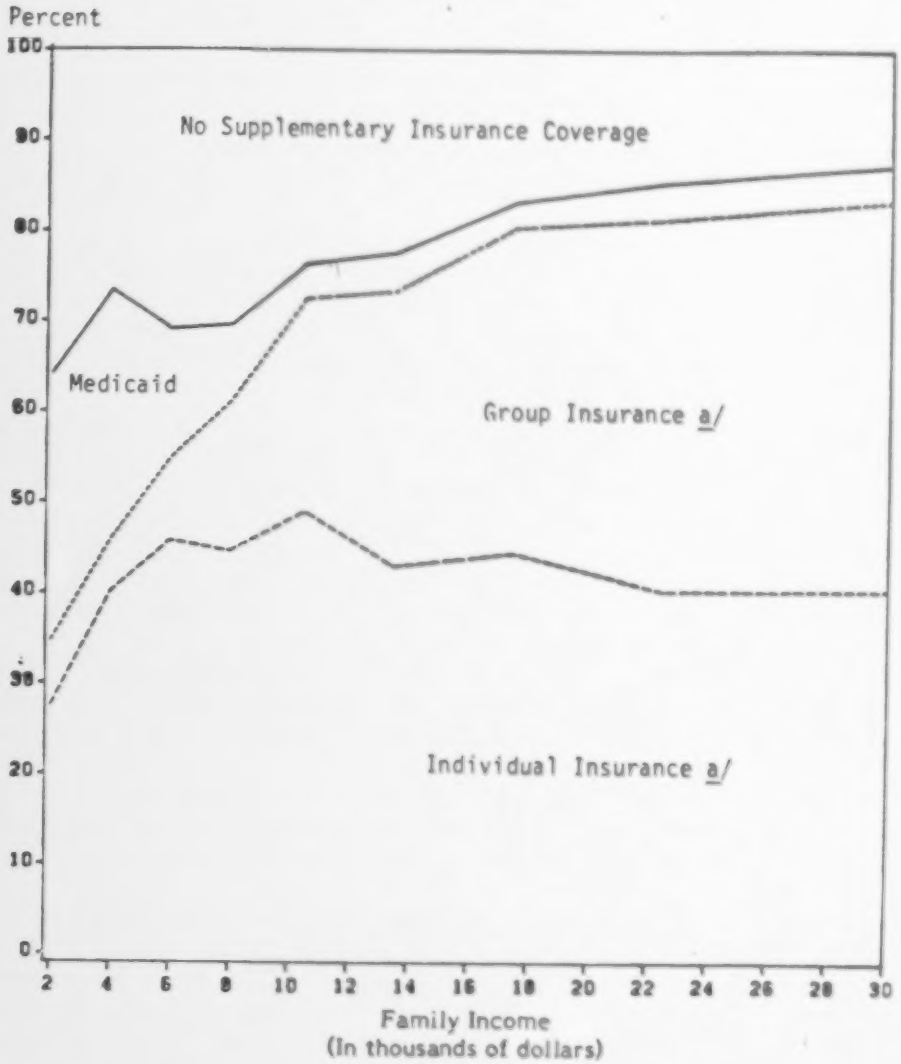
Nearly all of the elderly (99 percent) are covered for some medical expenses under at least one type of health insurance, with over 96 percent of them covered under Medicare. Because of the remaining out-of-pocket liabilities for Medicare's covered services (for example, deductibles and coinsurance) and the fact that some health care services are not covered by Medicare, over 20 million, or 80 percent, of the elderly have additional coverage through private supplementary insurance or Medicaid.[2]

As figure 1 shows, in 1984, 18 million—or 72 percent—of the elderly were covered by some form of private supplementary insurance, either as part of a group (generally insured through their current or former employer or union) or under an individual policy. There is considerable variation in the benefits offered under these policies, ranging from the conventional employer-provided insurance held by the working aged to hospital indemnity plans that pay only a limited sum for each day of hospitalization.[3]

[2] Most of the estimates in this section are based on the April 1984 Survey of Income and Program Participation (SIPP), which covers the civilian, noninstitutional population of the United States. Therefore, about one million institutionalized elderly, many covered by Medicaid, are excluded from this discussion of supplementary insurance. Individuals who have both private policies and Medicaid eligibility are included in the Medicaid category.

[3] The situation differs for those elderly under age 70 who are employed and covered by their employers' health plan, and for spouses under 70 who are covered by plans of workers under age 70. These private insurance plans must pay all bills that they cover, with Medicare serving as a secondary payer. Little is known about these beneficiaries or the characteristics of these plans.

FIGURE 1. PERCENT OF ELDERLY MEDICARE ENROLLEES HAVING SUPPLEMENTARY INSURANCE COVERAGE, BY FAMILY INCOME, APRIL 1984



SOURCE: Congressional Budget Office tabulations of Survey of Income and Program Participation (SIPP).

a. The SIPP questionnaire allows for description of only one type of private insurance plan. The first descriptive question asks whether it was an employer or union plan. Therefore, people who were covered under both a group and an individual plan are likely to have been classified above as covered by group insurance.

The most common form is the "medigap" policy, which is designed to pay part or all of Medicare's deductible amounts and coinsurance. In all but one State, these policies are required to meet minimum standards at least as stringent as those set out under the Baucus amendment to the 1980 Social Security Disability Act (Public Law 96–265). These standards require coverage of nearly all SMI coinsurance, all HI coinsurance, and 90 percent of all hospital expenses for 365 days beyond exhaustion of HI's coverage. Consequently, medigap policies greatly reduce the risks of high out-of-pocket expenditures associated with Medicare's covered services, although most policies do not cover other costs such as those for prescription drugs.

To obtain medigap coverage, of course, the elderly (or an employer or union) must pay a premium reflecting the generosity of the benefit package, as well as administrative and marketing costs that ranged from 15 percent to 35 percent of the premium. Annual medigap premiums averaged roughly $300 to $400 per person in 1984, though as a result of considerable differences in benefits and administrative costs, they ranged from as low as $150 to over $1,000.

The likelihood of an elderly person having private insurance rises with family income. As figure 1 also shows, 44 percent of those with incomes under $5,000 were covered, compared with 87 percent of those with incomes of $25,000 or more. Group insurance was more likely among those who had higher incomes, were younger, lived with their spouses, or were employed, while ownership of individual policies was more evenly distributed.

An additional 2 million, or 8 percent, of the elderly were eligible for Medicaid in April 1984. Medicaid eligibility, which is closely linked to receipt of SSI cash benefits, is largely concentrated among those with low incomes. In the 38 States with programs for the "medically needy," some elderly with incomes above cash assistance standards may also become eligible for Medicaid, especially if they have incurred high out-of-pocket expenses relative to their incomes.

Once covered by Medicaid, an elderly person faces little risk of high out-of-pocket expenses—the SMI premium and Medicare's cost sharing requirements are generally paid by Medicaid. Moreover, physicians who treat Medicaid patients may not bill these patients for any charges not paid by Medicare or Medicaid. Finally, many States cover a wide range of additional services as optional benefits that further reduce the risks to these elderly—48 of 50 Medicaid programs covered prescription drugs in 1981, for example.

TABLE 5.—CHARACTERISTICS OF ELDERLY MEDICARE ENROLLEES, APRIL 1984 [1]

Characteristic	Number of enrollees (in millions)	Percent of enrollees	Percent having neither private supplementary coverage nor Medicaid eligibility
All [2]	25.6	100	20.1
Family Income			
Under $5,000	3.1	12.2	28.5
$5,000 to $8,999	5.6	21.8	29.9
$9,000 to $14,999	6.2	24.1	20.8
$15,000 to $24,999	5.9	22.9	13.7
$25,000 and over	4.9	19.1	10.1
Age			
65 to 69	8.6	33.3	17.3
70 to 74	7.2	28.0	19.1
75 to 79	4.9	19.3	20.1
80 and above	5.0	19.4	26.5
Self-Reported Health Status			
Excellent	6.6	25.6	19.5
Good	9.5	37.1	20.1
Fair	6.4	25.2	20.4
Poor	3.1	12.1	20.8

[1] Details may not add to totals because of rounding.
[2] These estimates apply to the civilian, noninstitutionalized population age 65 and over enrolled in Medicare.

Source: Congressional Budget Office calculations based on the Survey of Income and Program Participation and the 1980 National Medical Care Utilization and Expenditure Survey.

Despite this widespread supplementary coverage, about 5 million—or 20 percent—of elderly Americans had no protection other than Medicare against health care costs. Moreover, the elderly with lower incomes and with greater health care needs were most likely to lack supplementary insurance, as shown in table 5. For example, nearly 30 percent of the elderly with family incomes under $9,000 had neither private coverage nor Medicaid eligibility, compared with 10 percent of those with family incomes over $25,000. Although health care needs rise with age, so did the likelihood of being without supplementary insurance—17 percent of those between 65 and 69 lacked coverage, compared with 27 percent of those 80 and older. Finally, lack of supplementary coverage was not related to health status, largely because Medicaid covers many of the elderly who are most likely to have poor health. Among those who were not eligible for Medicaid, however, those in poor health were least likely to have private insurance—28 percent

were not covered, compared with 20 percent for those whose health was good or excellent.[4]

Total Health Care Expenditures for the Elderly

Expenditures for personal health care services for the elderly nearly tripled between 1977 and 1984, rising from $43 billion to an estimated $120 billion (see table 6). Per capita spending rose an average of 13 percent annually during those years, from $1,785 to $4,202 (see table 7).

Government programs (Federal and State) account for two-thirds ($2,823 per capita) of estimated 1984 spending for the aged (see table 8). The most significant of these programs is Medicare which pays for nearly half ($2,051 per capita) of the aged's health bill. Medicaid funds about 13 percent ($536 per capita) of the expenditures. Other Government health programs are the source of roughly 6 percent ($236 per capita) of personal health care expenditures for people 65 years of age and over.

Consumers are responsible for the remaining one-third ($1,379 per capita) of spending for the aged. One-quarter ($1,059 per capita) of the total health bill for the aged was paid by direct patient payments, also termed out-of-pocket expenses. Out-of-pocket payments by the elderly represent the difference between total health expenditures by the aged and known third-party (public expenditures and private insurance) payments. These out-of-pocket payments include Medicare copayments (less any benefits paid for by so-called "medigap" policies), collected reasonable charge reductions, net private health insurance copayments, and the purchase of care not covered by any third party. It is important to note that direct out-of-pocket payments to providers are not the only expenditures by the aged for health care. The aged also pay supplementary medical insurance (SMI or part B) and private health insurance premiums which are not defined as out-of-pocket expenditures. Private health insurance, including medigap policies, covers an additional estimated 7 percent ($304 per capita) of personal health care expenditures for the elderly.

It is difficult to estimate precisely the share of the elderly's income which is spent on health care. There are little data available which examine this question directly. Therefore, these estimates require many assumptions and must be based on data from a variety of sources. The House Select Committee on Aging and the Senate Special Committee on Aging each have developed estimates of these amounts. They both estimated that the elderly's out-of-pocket health care costs as a percentage of mean income were about 12 percent in 1977 and about 15 percent in 1984.[5]

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[4] Part of the explanation is that the decision to purchase private supplementary insurance is directly related to the ability to pay its premiums and those with greater health care needs typically have lower incomes. Factors that lead to loss of coverage or barriers against acquiring coverage may also be important.

[5] House Select Committee on Aging, press release, October 31, 1984. Senate Special Committee on Aging, Medicare and the Health Costs of Older Americans: The Extent and Effects of Cost Sharing, committee print, April 1984.

TABLE 6.—PERSONAL HEALTH CARE EXPENDITURES FOR PEOPLE 65 YEARS OF AGE OR OVER, BY SOURCE OF FUNDS AND TYPE OF SERVICE, 1977 AND 1984

[In millions of dollars]

Year and source of funds	Type of service				
	Total care	Hospital	Physician	Nursing home	Other care
1977					
Total	43,425	18,906	7,782	10,696	6,041
Private	15,669	2,319	3,323	5,424	4,603
Consumer	15,499	2,263	3,320	5,352	4,564
Out-of-pocket	12,706	927	2,147	5,264	4,368
Insurance	2,793	1,336	1,173	88	195
Other private	170	56	3	72	39
Government	27,756	16,587	4,458	5,272	1,438
Medicare	19,171	14,087	4,158	348	578
Medicaid	6,049	733	232	4,453	631
Other government	2,536	1,767	68	470	230
Exhibit: Population (in millions)	24.3				
1984					
Total	119,872	54,200	24,770	25,105	15,798
Private	39,341	6,160	9,827	13,038	10,316
Consumer	38,875	5,964	9,818	12,856	10,237
Out-of-pocket	30,198	1,694	6,468	12,569	9,467
Insurance	8,677	4,270	3,350	287	770
Other private	466	196	9	182	79
Government	80,531	48,040	14,943	12,067	5,482
Medicare	58,519	40,524	14,314	539	3,142
Medicaid	15,288	2,595	467	10,418	1,808
Other government	6,724	4,920	162	1,110	532
Exhibit: Population (in millions)	28.5				

Source: Office of Financial and Actuarial Analysis, Health Care Financing Administration as reported in Waldo, Daniel R., and Helen C. Lazenby. "Demographic characteristics and health care use and expenditures by the aged in the United States: 1977–1984." Health Care Financing Review, Fall 1984 No. 1, p. 1.

TABLE 7.—PERSONAL HEALTH CARE EXPENDITURES PER CAPITA FOR PEOPLE 65 YEARS OF AGE OR OVER, BY SOURCE OF FUNDS AND TYPE OF SERVICE, 1977 AND 1984

Year and source of funds	Type of service				
	Total care	Hospital	Physician	Nursing	Other care
1977					
Total	$1,785	$777	$230	$440	$248
Private	644	95	137	223	189
Consumer	637	93	136	220	188
Out-of-pocket	522	38	88	216	180
Insurance	115	55	48	4	8
Other private	7	2	(1)	3	2
Government	1,141	682	183	217	59
Medicare	788	579	171	14	24
Medicaid	249	30	10	183	26
Other government	104	73	3	19	9

	1984				
Total	4,202	1,900	868	880	554
Private	1,379	216	344	457	362
Consumer	1,363	209	344	451	359
Out-of-pocket	1,059	59	227	441	332
Insurance	304	150	117	10	27
Other private	16	7	(1)	6	3
Government	2,823	1,684	524	423	192
Medicare	2,051	1,420	502	19	110
Medicaid	536	91	16	365	63
Other government	236	172	6	39	19

[1] Less than $.50.

Source: Office of Financial and Actuarial Analysis, Health Care Financing Administration as reported in Waldo, Daniel, R., and Helen C. Lazenby. "Demographic characteristics and health care use and expenditures by the aged in the United States: 1977–1984." Health Care Financing Review. Fall 1984 No. 1, p. 1.

TABLE 8.—PERCENT DISTRIBUTION OF PERSONAL HEALTH CARE EXPENDITURES PER CAPITA FOR PEOPLE 65 YEARS OF AGE OR OVER, BY SOURCE OF FUNDS AND TYPE OF SERVICE: 1977 AND 1984

Year and source of funds	Type of service				
	Total care	Hospital	Physician	Nursing home	Other care
1977					
Total per capita	100.0	100.0	100.0	100.0	100.0
Private	36.1	12.3	42.7	50.7	76 2
Consumer	35.7	12.0	42.7	50.0	75.5
Out-of-pocket	29.3	4.9	27.6	49.2	72.3
Insurance	6.4	7.1	15.1	0.8	3.2
Other private	0.4	0.3	.0	0.7	0.6
Government	63.9	87.7	57.3	49.3	23.8
Medicare	44.1	74.5	53.4	3.3	9.6
Medicaid	13.9	3.9	3.0	41.6	10.4
Other government	5.8	9.3	0.9	4.4	3.8
1984					
Total per capita	100.0	100.0	100.0	100.0	100.0
Private	32.8	11.4	39.7	51.9	65.3
Consumer	32.4	11.0	39.6	51.2	64.8
Out-of-pocket	25.2	3.1	26.1	50.1	59.9
Insurance	7.2	7.9	13.5	1.1	4.9
Other private	0.4	0.4	.0	0.7	0.5
Government	67.2	88.6	60.3	48.1	34.7
Medicare	48.8	74.8	57.8	2.1	19.9
Medicaid	12.8	4.8	1.9	41.5	11.4
Other government	5.6	9.1	0.7	4.4	3.4

Source: Office of Financial and Actuarial Analysis, Health Care Financing Administration as reported in Waldo, Daniel, R., and Helen C. Lazenby. "Demographic characteristics and health care use and expenditures by the aged in the United States: 1977–1984." Health Care Financing Review. Fall 1981 No. 1, p. 1.

Out-of-Pocket Liabilities of the Elderly Under Medicare

Although Medicare covers most of the costs of serious illnesses, beneficiaries are responsible for a portion of their health care expenditures on covered services. These enrollee liabilities include

Medicare copayments—deductibles and coinsurance under both Hospital Insurance (HI) and Supplementary Medical Insurance (SMI)—and balance-billing by physicians who charge in excess of Medicare's allowed amounts.

In 1987, these out-of-pocket liabilities will average $561 per enrollee (see table 9). On average, 65 percent of copayment costs arise under the SMI program and 35 percent arise under the HI program. More than 50 percent of copayment costs are on the claims of physicians and related suppliers. When balance-billing is considered as well, more than 60 percent of out-of-pocket costs are on physicians' claims. About a third of copayment costs are on hospital inpatient stays, while less than 2 percent is due to coinsurance on stays in skilled nursing facilities or on hospice or home health services. Nearly 14 percent of copayment costs arise in hospital outpatient departments.

Copayment liabilities are highest for enrollees with inpatient stays, and for those with renal disease. Those with hospital inpatient stays comprise 22 percent of the enrollee population, but this group is liable for 70 percent of out-of-pocket costs (see table 10). Enrollees with renal disease are only 0.4 percent of the enrollee population, but they are liable for nearly 4 percent of out-of-pocket costs.

TABLE 9.—MEDICARE ENROLLEES' OUT-OF-POCKET LIABILITIES FOR COVERED SERVICES, BY TYPE OF SERVICE, 1987 [1]

Type of service	Medicare copayments		Balance-billing		Total	
	Dollars per enrollee	Percent of total	Dollars per enrollee	Percent of total	Dollars per enrollee	Percent of total
Total Medicare	456	100.0	105	100.0	561	100.0
Hospital insurance	159	35.0	0	0.0	159	28.4
Inpatient stays	151	33.1	0	0.0	151	26.9
Other	8	1.8	0	0.0	8	1.5
Supplementary medical insurance	296	65.0	105	100.0	401	71.6
Physicians/suppliers	235	51.5	105	100.0	340	60.6
Outpatient departments	62	13.5	0	0.0	62	11.0

[1] The costs shown here represent aged and disabled enrollees' liabilities. Amounts paid by enrollees may be less, because some enrollees' liabilities are paid by Medicaid or are not paid at all.

Source: Preliminary Congressional Budget Office estimates based on 1985 Medicare claims data, projected to 1987.

Only about 20 percent of aged Medicare enrollees actually pay these out-of-pocket liabilities directly, though. Medicare copayment costs are paid by Medicaid for the 8 percent of enrollees who are dually eligible. Another 72 percent of enrollees have medigap insurance that pays most of their Medicare copayment costs, in exchange for additional premiums that will average between $500 and $600 in 1987. As a result, enrollees' actual payments (including both out-of-pocket costs and medigap insurance premiums) are much more uniform across types of enrollees than is apparent in table 10.

TABLE 10.—MEDICARE ENROLLEES' OUT-OF-POCKET LIABILITIES FOR COVERED SERVICES, BY TYPE OF ENROLLEE, 1987 [1]

Enrollee group	Percent of enrollees in group	HI copayments		SMI copayments		Balance-billing		Total	
		Dollars per enrollee	Percent of total	Dollars per enrollee	Percent of total	Dollars per enrollee	Percent of total	Dollars per enrollee	Percent of total
All enrollees	100.0	159	100.0	296	100.0	105	100.0	561	100.0
Male	42.3	163	43.2	305	43.5	114	45.8	581	43.9
Female	57.7	157	56.8	290	56.5	99	54.2	546	56.1
Under age 65	9.9	176	11.0	369	12.4	65	6.1	609	10.8
Age 65 to 69	33.2	112	23.3	247	27.7	99	31.2	457	27.1
Age 70 to 74	18.3	146	16.8	292	18.1	116	20.3	555	18.1
Age 75 to 79	17.5	173	19.0	321	19.0	126	21.0	620	19.4
Age 80 to 84	11.4	209	14.9	332	12.8	118	12.8	659	13.4
Age 85 or more	9.6	249	15.0	312	10.1	95	8.7	656	11.2
Aged:									
Without renal disease	90.4	156	88.4	281	85.7	109	93.8	546	88.0
With renal disease	0.1	856	0.7	4,643	2.1	234	0.3	5,733	1.4
Disabled:									
Without renal disease	9.2	172	9.9	273	8.5	64	5.6	508	8.4
With renal disease	0.3	550	0.9	4,109	3.7	138	0.4	4,796	2.3
No reimbursable services	28.4	0	0.0	37	3.6	0	0.0	37	1.9
Reimbursable services, with:									
No inpatient stays	49.7	1	0.4	243	40.8	73	34.3	317	28.1
One stay	14.5	520	47.4	563	27.6	252	34.8	1,335	34.6
Two or more stays	6.9	827	35.7	1,079	25.0	440	28.8	2,346	28.8
One or more stays, with coinsurance days	0.5	5,391	16.5	1,809	3.0	457	2.1	7,657	6.7

[1] The costs shown here represent aged and disabled enrollees' liabilities. Amounts paid by enrollees may be less, because some enrollees' liabilities are paid by Medicaid or by supplementary private insurance, or some liabilities are not paid at all. For those enrollees who purchase medigap insurance, the burden of costs (including both out-of-pocket costs and medigap insurance premiums) is more uniform across types of enrollees than shown here, because medigap coverage greatly reduces enrollees' copayment costs in return for their paying private insurance premiums.

Source: Preliminary Congressional Budget Office estimates based on 1985 Medicare claims data, projected to 1987.

TABLE 11.—MEDICARE UTILIZATION—NUMBER OF AGED PERSONS SERVED UNDER HOSPITAL INSURANCE AND/OR SUPPLEMENTARY MEDICAL INSURANCE PER 1,000 ENROLLED, AMOUNT REIMBURSED PER PERSON SERVED, AND PERCENT CHANGE, BY CENSUS DIVISION AND STATE

Census division and State	Persons served per 1,000 enrolled			Reimbursement per person served		
	1967	1982	Annual percent change	1967	1982	Annual percent change
Total, all areas [1]	366.5	641.4	3.8	$592	$2,439	9.9
United States [2]	370.9	650.0	3.8	593	2,446	9.9
New England	380.4	696.9	4.1	680	2,393	8.7
Maine	330.1	671.6	4.8	586	2,176	9.1
New Hampshire	391.6	658.1	3.5	467	2,174	10.8
Vermont	411.7	677.2	3.4	515	2,073	9.7
Massachusetts	394.2	700.3	3.9	708	2,681	9.3
Rhode Island	375.4	769.1	4.9	625	1,994	8.0
Connecticut	390.9	689.8	3.9	711	2,171	7.7
Middle Atlantic	388.1	688.6	3.9	578	2,428	10.0
New York	406.9	703.8	3.7	610	2,343	9.4
New Jersey	399.0	687.6	3.7	526	2,386	10.6
Pennsylvania	365.0	668.4	4.1	533	2,574	11.1
East North Central	350.2	630.1	4.0	614	2,687	10.3
Ohio	353.6	630.2	3.9	585	2,579	10.4
Indiana	343.7	598.7	3.8	545	2,428	10.5
Illinois	339.2	589.7	3.8	703	3,072	10.3
Michigan	379.5	712.2	4.3	532	2,702	11.4
Wisconsin	354.7	615.6	3.7	639	2,346	9.1
West North Central	363.2	617.3	3.6	558	2,349	10.1
Minnesota	389.0	621.3	3.2	601	2,146	8.9
Iowa	365.9	613.0	3.5	505	2,156	10.2
Missouri	364.8	603.6	3.4	544	2,667	11.2
North Dakota	441.2	665.3	2.8	492	2,413	11.2
South Dakota	358.0	585.7	3.3	514	2,228	10.3
Nebraska	352.5	575.6	3.3	540	2,200	9.8
Kansas	365.3	669.9	4.1	540	2,376	10.4
South Atlantic	350.5	653.4	4.2	554	2,310	10.0
Delarware	368.2	680.2	4.2	552	2,119	9.4
Maryland	349.4	667.3	4.4	564	2,764	11.2
District of Columbia	452.8	691.6	2.9	570	3,622	13.1
Virginia	317.3	622.2	4.6	516	2,170	10.0
West Virginia	342.2	577.8	3.6	489	2,283	10.8
North Carolina	324.0	588.8	4.1	515	1,995	9.4
South Carolina	296.3	585.1	4.6	523	1,990	9.3
Georgia	320.2	632.1	4.6	474	1,982	10.0
Florida	420.9	710.6	3.6	588	2,437	9.9
East South Central	332.1	589.5	3.9	489	2,232	10.7
Kentucky	365.9	552.7	2.8	458	2,269	11.3
Tennessee	354.8	583.3	3.4	502	2,225	10.4
Alabama	322.7	621.4	4.5	490	2,303	10.9
Mississippi	283.2	604.2	5.2	471	2,084	10.4

TABLE 11.—MEDICARE UTILIZATION—NUMBER OF AGED PERSONS SERVED UNDER HOSPITAL INSURANCE AND/OR SUPPLEMENTARY MEDICAL INSURANCE PER 1,000 ENROLLED, AMOUNT REIMBURSED PER PERSON SERVED, AND PERCENT CHANGE, BY CENSUS DIVISION AND STATE—Continued

Census division and State	Persons served per 1,000 enrolled			Reimbursement per person served		
	1967	1982	Annual percent change	1967	1982	Annual percent change
West South Central	374.8	606.6	3.3	504	2,371	10.9
Arkansas	319.3	616.8	4.5	466	2,051	10.4
Louisiana	343.4	559.0	3.3	446	2,445	12.0
Oklahoma	416.1	599.2	2.5	486	2,281	10.9
Texas	393.7	619.8	3.1	522	2,448	10.9
Mountain	417.1	640.9	2.9	560	2,237	9.7
Montana	416.5	618.0	2.7	505	2,124	10.1
Idaho	408.8	625.5	2.9	467	1,921	9.9
Wyoming	395.0	568.4	2.5	432	2,446	12.3
Colorado	475.4	657.8	2.2	578	2,300	9.6
New Mexico	377.6	622.3	3.4	513	2,064	9.7
Arizona	431.7	668.8	3.0	612	2,239	9.0
Utah	346.0	598.6	3.7	580	1,931	8.3
Nevada	414.9	645.7	3.0	532	3,174	12.6
Pacific	468.9	689.2	2.6	630	2,624	10.0
Washington	433.0	667.9	2.9	507	1,944	9.4
Oregon	392.6	630.6	3.2	583	2,315	9.6
California	490.7	702.3	2.4	653	2,788	10.2
Alaska	307.2	644.7	5.1	376	2,756	14.2
Hawaii	407.4	649.4	3.2	572	2,307	9.7

[1] Consists of United States and all other areas not shown separately.
[2] Consists of 50 States, District of Columbia, and residence unknown.

Source: Bureau of Data Management and Strategy, Health Care Financing Administration: Data from the Medicare Statistical System.

APPENDIX D. NATIONAL HEALTH CARE EXPENDITURES AND HEALTH INSURANCE COVERAGE

National Health Expenditures

During 1965 (the year prior to the beginning of the Medicare and Medicaid programs), national health expenditures were $41.9 billion; by 1985, annual expenditures were $425 billion, over 10 times that amount. Hospital care expenditures are the largest component of national health expenditures, representing 39.2 percent of total national health spending in 1985. In terms of per capita spending, $675 was spent for hospital care per capita in 1985 compared to $644 in 1984, an increase of 4.8 percent (see table 2).

Of the various sources of payment for personal health care expenditures in 1985, 30.6 percent ($113.5 billion) was paid by private health insurance, 19 percent ($70.5 billion) was paid by Medicare, 11.3 percent ($42.1 billion) was paid by other Federal sources (including Medicaid), 9.4 percent ($34.8 billion) was paid from State and local sources, and 28.4 percent ($105.6 billion) was paid by direct (out-of-pocket) payments by individuals.

TABLE 1.—NATIONAL HEALTH EXPENDITURES: AGGREGATE AMOUNTS FOR SELECTED CALENDAR YEARS 1965, 1970, 1975, 1980, AND 1985

[Amount in billions]

	1965	1970	1975	1980	1985
Total	$41.9	$75.0	$132.7	$248.1	$425.0
Percent of GNP	5.9	7.4	8.3	9.1	10.7
Health services and supplies	$38.4	$69.6	$124.3	$236.2	$409.5
Personal health care	35.9	65.4	117.1	219.7	371.4
Hospital care	14.0	28.0	52.4	101.6	166.7
Physicians' services	8.5	14.3	24.9	46.8	82.8
Dentists' services	2.8	4.7	8.2	15.4	27.1
Other professional services	1.0	1.6	2.6	5.7	12.6
Drugs and medical sundries	5.2	8.0	11.9	18.5	28.5
Eyeglasses and appliances	1.2	1.9	3.2	5.1	7.5
Nursing home care	2.1	4.7	10.1	20.4	35.2
Other health services	1.1	2.1	3.8	5.9	11.0
Expenses for prepayment and administration	1.7	2.8	4.0	9.2	26.2
Government public health activities	0.8	1.4	3.2	7.3	11.9
Research, and construction of medical facilities	3.5	5.4	8.4	11.9	15.4

Note: Totals may not not add due to rounding.

Source: Daniel R. Waldo, Katharine R. Levit and Helen Lazenby. "National Health Expenditures, 1985." Health Care Financing Review, Fall 1986, p. 1.

TABLE 2.—NATIONAL HEALTH EXPENDITURES: PER CAPITA AMOUNTS FOR SELECTED CALENDAR YEARS 1965, 1970, 1975, 1980, AND 1985

[Dollar amount per capita]

	1965	1970	1975	1980	1985
Total	$205	$349	$590	$1,054	$1,721
Health services and supplies	188	324	553	1,004	1,659
Personal health care	176	304	521	934	1,504
Hospital care	69	130	233	432	675
Physicians' services	42	66	111	199	335
Dentists' services	14	22	36	65	110
Other professional services	5	7	12	24	51
Drugs and medical sundries	25	37	53	80	115
Eyeglasses and appliances	6	9	14	22	30
Nursing home care	10	22	45	87	143
Other health services	5	10	17	25	45
Expenses for prepayment and administration	8	13	18	39	106
Government public health activities	4	7	14	31	48
Research, and construction of medical facilities	17	25	37	51	62

Note: Totals may not add due to rounding.

Source: Daniel R. Waldo, Katharine R. Levit, and Helen Lazenby, "National Health Expenditures, 1985." Health Care Financing Review, Fall 1986, p. 1.

TABLE 3.—PERSONAL HEALTH CARE EXPENDITURES: AGGREGATE AMOUNTS AND PERCENTAGE DISTRIBUTION FOR SELECTED CALENDAR YEARS 1965, 1970, 1975, 1980, AND 1985

	1965	1970	1975	1980	1985
	Amount in billions				
Total	$35.9	$65.4	$117.1	$219.1	$371.4
Private	28.0	42.9	70.9	133.2	224.0
Private health insurance	8.7	15.3	31.2	67.5	113.5
Patient direct payments	18.5	26.5	38.1	63.0	105.6
Philanthropy and in-plant health services	0.8	1.1	1.6	2.7	4.9
Public	7.9	22.4	46.3	86.5	147.5
Federal	3.6	14.5	31.4	62.5	112.6
State and local	4.3	7.9	14.9	24.0	34.8
	Percentage distribution				
Total	100.0	100.0	100.0	100.0	100.0
Private	78.0	65.6	60.5	60.6	60.3
Private health insurance	24.2	23.4	26.7	30.7	30.6
Patient direct payments	51.6	40.5	32.5	28.7	28.4
Philanthropy and in-plant health services	2.2	1.7	1.3	1.2	1.3

TABLE 3.—PERSONAL HEALTH CARE EXPENDITURES: AGGREGATE AMOUNTS AND PERCENTAGE DISTRIBUTION FOR SELECTED CALENDAR YEARS 1965, 1970, 1975, 1980, AND 1985—Continued

	1965	1970	1975	1980	1985
Public	22.0	34.3	39.5	39.3	39.7
Federal	10.1	22.2	26.8	28.4	30.3
State and local	11.9	12.1	12.7	10.9	9.4

Note: Totals may not add due to rounding.

Source: Daniel R. Waldo, Katharine R. Levit, and Helen Lazenby. "National Health Expenditures, 1985." Health Care Financing Review, Fall 1986, p. 1.

Expenditures for Hospital Care

During 1965 (the year prior to the beginning of the Medicare and Medicaid programs), national expenditures for hospital care amounted to $13 billion. By 1985, annual expenditures had reached $166.7 billion, over 12 times the 1965 amount. In 1984, hospital inpatient expenditures, which had been increasing rapidly for many years, slowed. The 1984 increase of 6.1 percent and the 1985 increase of 5.6 percent represent the slowest increases experienced in the last two decades.

From 1970 to 1977, inpatient expenditures in community hospitals grew at an average annual rate of 14.6 percent. After a marked slowing in 1978 and 1979, growth accelerated rapidly and reached an annual rate of 18.4 percent in 1981. Since 1981, the annual rate of increase in inpatient hospital expenses has been declining steadily, following the decline in overall inflation in the economy. In addition, the recent decline in the number of inpatient days per capita has also contributed to this downward trend. During 1982, community hospital inpatient expenditures slowed to an annual increase of 15.5 percent. During 1983, the rate of increase dropped to 9.6 percent. In 1985, the rate of increase dropped to 4.4 percent.

This rapid growth in hospital costs has led to substantial increases in Federal spending for Medicare and Medicaid, of which roughly 61.3 percent is for hospital care. Federal outlays under these programs for hospital care totaled approximately $56.6 billion in 1985.

The cost of hospital care has typically increased more than the "hospital market basket," which measures changes in the prices of goods purchased by hospitals. This index increased annually by an average of 8.9 percent from 1977 to 1984 whereas Medicare hospital expenditures grew an average annual rate of 15.6 percent over the same period. In 1984, growth in Medicare hospital spending slowed to 9.6 percent. Some health researchers credit the reduced rate of growth in Medicare hospital expenditures to lower hospital price inflation and stronger cost containment measures.

There are a variety of factors other than overall inflation which contribute to aggregate changes in hospital expenses. These factors

include: population growth, factors such as aging of the population which affect admission rates, inflation in the prices of goods and services purchased by the hospitals (input factor prices) over and above general inflation, and changes in the type and mix (intensity) of services rendered due to such factors as changes in the use of technology or treatment patterns. It has been estimated that over 51 percent of the overall growth in inpatient hospital expenses between 1974 and 1984 was due to overall inflation, approximately 7.3 percent to population growth, 16.6 percent to excess inflation in hospital prices, and 33.4 percent to intensity of services per day. The recent decline in the number of inpatient days per capita has exerted downward pressure on inpatient hospital expenses. This decline held the growth in these expenses between 1974 and 1984 to 8.5 percent below what otherwise would have occurred.[1]

TABLE 4.—HISTORICAL AND PROJECTED INCREASES IN HI HOSPITAL INPATIENT EXPENDITURES, BY COMPONENT OF INCREASE, 1974–95

[Percent increase over previous year]

Calendar year	HI hospital inpatient expenditures	HI inpatient admission volume	Hospital market basket index	Service intensity and productivity[1]
	Historical rates			
1974	23.6	5.9	10.4	5.7
1975	22.6	3.5	10.9	6.8
1976	19.2	4.4	8.2	5.5
1977	17.1	7.7	7.4	1.2
1978	14.9	0.7	8.2	5.4
1979	16.5	5.9	9.6	0.4
1980	20.8	4.6	11.6	3.5
1981	19.9	4.8	11.7	2.5
1982	15.7	1.7	9.6	3.8
1983	10.8	2.7	6.3	1.5
1984	10.0	−2.4	5.6	6.7
	Projected rates[2]			
1985	4.6	−4.0	4.8	4.0
1986	5.8	−1.0	4.0	2.7
1987	9.6	1.5	4.8	3.0
1988	11.3	3.0	6.0	1.9
1989	11.3	3.7	6.8	0.5
1990	11.2	3.7	6.5	0.6
1995	9.3	2.6	6.0	0.2

[1] A residual category; that part of annual growth in HI hospital inpatient expenditures not accounted for by growth in HI admissions or increases in the market basket index.

[2] Based on alternative II–B economic assumptions.

Source: Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund, 1986, table A1, p. 67.

[1] Ross H. Arnett III, David R. McKusick, Sally T. Sonnefeld, and Carol Cowell. "Projections of Health Care Spending to 1990," Health Care Financing Review, Spring 1986, p 4.

Expenditures for Physicians' Services

Personal health care expenditures for physicians' services were $82.8 billion in 1985, an increase of 9.8 percent from the previous year (see table 1). In 1985, 22.3 percent of personal health care expenditures and 19.5 percent of all national health expenditures were for physicians' services. Physicians, however, affect personal health care expenditures more than this might indicate. Physicians have considerable discretion in determining price and volume of all medical services. It is estimated that physicians' decisions (such as ordering hospitalizations, drugs, laboratory tests) directly influence over 70 percent of all health care spending.

Third-party (public expenditures and private insurance) payments financed a large majority of physicians' services. Private health insurance paid $36.8 billion (44.5 percent) for such services. The remainder was split relatively evenly between direct patient payments and public expenditures. Patients or their families paid $21.8 billion (26.3 percent) for physicians' services. Public programs paid $24.1 billion (29.1 percent) for such services, of which $17.1 billion (20.6 percent) was composed of Federal Medicare payments.

Inflation was a major cause of growth in spending for physicians' services. Physicians' fees have risen more rapidly (6.9 percent in 1985) than prices in the economy as a whole (3.8 percent in 1985), as measured by the Consumer Price Index (CPI) (see table 6).

Expenditures for physicians' services over a 10-year span increased from $21.2 billion in 1974 to $75.4 billion in 1984, an annual growth rate of about 13.5 percent. Of this expenditure growth, increases in overall inflation accounted for 52.8 percent, increases in the medical care price increases in excess of general price inflation accounted for 19.7 percent, and increased intensity per visit for 27.5 percent. A change in the number of visits per person had the effect of decreasing the growth in physician expenditures by 7.5 percent.

The average 1985 net income after expenses but before taxes for physicians was $113,200, an increase of 4.4 percent over the previous year (see table 7). Surgeons had the highest average net income ($155,400) among the specialty groups. General/family practice physicians experienced the highest growth in average net income, 9.6 percent, but remained among those specialties with lowest average net income. In contrast, the net income of anesthesiologists fell by 3.6 percent. By region, average net income growth rates varied greatly, ranging from −5.9 percent in the East South Central Region to 24.1 percent in New England. Physicians in the West South Central and East North Central Regions had the highest average net incomes ($123,300 and $118,900 respectively). Physicians in the Mountain Region had the lowest average net income ($97,500). The growth rates between rural and urban areas varied between 3.6 percent in non-metropolitan areas and 2.6 percent in metropolitan areas with less than 1 million population and 6.0 percent in metropolitan areas with more than 1 million population. The average net income of self-employed physicians ($124,500) continued to be higher than the average net income of employee physicians ($83,800). Also, the 4.2 percent growth rate in employee physi-

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cians' net income was lower than the 5.0 percent growth rate for self-employed physicians.

The 1982 continuing survey of physicians' income conducted by Medical Economics [2] showed that the typical office-based doctor received two-thirds of his 1981 gross practice income from third parties (see table 8). On the average, 21 percent came from commercial health insurance, 20 percent from Blue Shield, 17 percent from Medicare, and 8 percent from Medicaid. Table 8 also shows the breakdown of gross practice income from each third party. For example, thoracic surgeons on average receive 35 percent ($72,420 per capita) of their gross income from Medicare, while pediatricians on average gain only 1 percent ($1,170 per capita) of their gross incomes from Medicare.

TABLE 5.—PERSONAL HEALTH CARE EXPENDITURES FOR PHYSICIAN SERVICES [1] BY SELECTED THIRD-PARTY PAYERS: CALENDAR YEARS 1983–85

[Amounts in billions]

Source of payment	1983		1984		1985	
	Amount	Percent	Amount	Percent	Amount	Percent
Total	$68.4	100.0	$75.4	100.0	$82.8	100.0
Direct payments	18.9	27.7	21.0	27.8	21.8	26.3
Third-party payments	49.5	72.3	54.4	72.2	61.0	73.7
Private health insurance	30.1	44.0	33.5	44.4	36.8	44.5
Philanthropy and industrial inplant	(2)	(2)	(2)	(2)	(2)	(2)
Government	19.3	28.3	20.9	27.8	24.1	29.1
Federal	15.6	22.8	16.9	22.4	19.7	23.8
Medicare [3]	13.4	19.5	14.6	19.3	17.1	20.7
Medicaid [4]	1.6	2.3	1.7	2.2	1.9	2.3
Other	.6	.9	.7	.9	.7	.8
State and local	3.8	5.5	4.0	5.3	4.4	5.3
Medicaid [4]	1.3	2.0	1.4	1.8	1.5	1.8
Other	2.4	3.5	2.6	3.5	2.9	3.5

[1] Encompasses the cost of all services and supplies provided in physicians' offices, the cost for services of private practitioners in hospitals and other institutions, and the cost of diagnostic work performed in independent clinical laboratories. The salaries of staff physicians are counted with expenditures for the services of the employing institution.

[2] Less than $50 million.

[3] Represents total expenditures from funds for benefits. Trust fund income includes premium payments paid by or on behalf of enrollees.

[4] Includes funds paid into Medicare trust funds by States under "buy-in" agreements to cover premiums for public assistance recipients and for persons who are medically indigent.

Source: Office of Financial and Actuarial Analysis, Bureau of Data Management and Strategy, Health Care Financing Administration; and Katharine R. Levit, Helen Lazenby, Daniel R. Waldo, and Lawrence M. Davidoff. "National Health Expenditures, 1984." Health Care Financing Review, Fall 1985, p. 1.

[2] Owens, Arthur. "How Much of Your Income Comes From Third Parties?" in Medical Economics, April 4, 1983.

TABLE 6.—ANNUALIZED RATES OF CHANGE IN THE CONSUMER PRICE INDEX (CPI–U) [1] 1965–85

	CPI all items	CPI, all items less medical care	Medical care total	Physicians' services
1965	1.7	1.5	2.5	3.6
1966	2.9	3.0	4.4	5.8
1967	2.9	2.4	7.1	7.1
1968	4.2	4.1	6.1	5.6
1969	5.4	5.4	6.9	6.9
1970	5.9	5.8	6.3	7.5
1971	4.3	4.1	6.5	6.9
1972	3.3	3.3	3.2	3.1
1973	6.2	6.4	3.9	3.3
1974	11.0	11.1	9.3	9.2
1975	9.1	8.9	12.0	12.3
1976	5.8	5.5	9.5	11.3
1977	6.5	6.2	9.6	9.3
1978	7.7	7.6	8.4	8.3
1979	11.3	11.4	9.3	9.2
1980	13.5	13.6	10.9	10.6
1981	10.4	10.3	10.8	11.0
1982	6.1	5.9	11.6	9.4
1983	3.2	2.9	8.7	7.7
1984	4.3	4.1	6.2	7.0
1985	3.8	3.6	6.7	6.9
1986	1.9	1.5	7.5	7.2

[1] CPI index for all urban consumers, unadjusted figures.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index.

TABLE 7.—PHYSICIANS' AVERAGE NET INCOME AFTER EXPENSES BUT BEFORE TAXES, SURVEY RESULTS, 1983 AND 1984

	Average net income [1] (in thousands)			Percent change
	1983	1984	1985	
All physicians [2]	$106.3	$108.4	$113.2	4.4
Specialty:				
General/family practice	68.5	71.1	77.9	9.6
Internal medicine	93.3	103.2	101.0	−2.1
Surgery	145.5	151.8	155.4	2.4
Pediatrics	70.7	74.5	77.1	3.5
Obstetrics/gynecology	119.9	116.2	122.7	5.6

TABLE 7.—PHYSICIANS' AVERAGE NET INCOME AFTER EXPENSES BUT BEFORE TAXES, SURVEY RESULTS, 1983 AND 1984—Continued

	Average net income [1] (in thousands)			Percent change
	1983	1984	1985	
Radiology	148.0	139.8	150.8	7.9
Psychiatry	80.0	85.5	88.6	3.6
Anesthesiology	144.7	145.4	140.2	−3.6
Census Division:				
New England	84.5	87.3	108.3	24.1
Middle Atlantic	98.6	98.4	107.9	9.7
East North Central	114.3	109.4	118.9	8.7
West North Central	110.5	110.7	113.7	2.7
South Atlantic	106.7	114.5	112.6	−1.7
East South Central	114.9	122.2	115.0	−5.9
West South Central	124.4	119.1	123.3	3.5
Mountain	91.4	102.3	97.5	−4.7
Pacific	103.1	109.4	113.6	3.8
Location:				
Nonmetropolitan	87.2	90.9	94.2	3.6
Metropolitan:				
Less than 1,000,000	111.0	115.1	118.1	2.6
1,000,000 and over	106.3	106.4	112.8	6.0
Employment Status:				
Self-employed	115.9	118.6	124.5	5.0
Employee	77.6	80.4	83.8	4.2

[1] Average net income after expenses but before taxes. These figures include contributions made into pension, profit-sharing, and deferred compensation plans.
[2] Includes physicians in specialties not reported separately.

Source: Socioeconomic Characteristics of Medical Practice, 1986, American Medical Association.

TABLE 8.—NET PRACTICE EARNINGS OF PHYSICIANS NATIONWIDE FROM 16 SPECIALTIES, SURVEY RESULTS, 1981

	Commercial plans		Blue Shield		Medicare		Medicaid	
	Amount per capita	As percent of gross	Amount per capita	As percent of gross	Amount per capita	As percent of gross	Amount per capita	As percent of gross
Anesthesiologists	$40,880	27	$43,750	29	$32,790	22	$12,970	10
Family practitioners	25,110	17	18,390	13	21,220	15	12,370	9
General practitioners	22,620	17	16,800	13	21,170	18	12,250	10
General surgeons	47,700	26	45,570	27	43,750	25	13,190	8
Internists	20,870	15	26,420	19	39,630	29	8,740	7
Neurologists	34,070	22	32,860	22	37,390	24	12,040	9
Neurosurgeons	67,040	32	57,220	28	37,310	18	14,920	8
Obstetricians/gynecologists	59,690	32	55,070	30	8,530	5	15,450	8
Ophthalmologists	18,900	10	21,610	11	49,010	24	12,770	8
Orthopedic surgeons	76,920	31	58,050	25	43,220	17	14,390	6

TABLE 8.—NET PRACTICE EARNINGS OF PHYSICIANS NATIONWIDE FROM 16 SPECIALTIES, SURVEY RESULTS, 1981—Continued

	Commercial plans		Blue Shield		Medicare		Medicaid	
	Amount per capita	As percent of gross	Amount per capita	As percent of gross	Amount per capita	As percent of gross	Amount per capita	As percent of gross
Pathologists	18,420	14	34,850	26	28,000	21	13,330	11
Pediatricians	16,750	14	12,080	12	1,170	1	10,950	9
Plastic surgeons	43,870	25	34,670	22	18,780	12	8,710	5
Psychiatrists	25,370	24	20,140	19	6,370	6	5,340	5
Radiologists	32,840	18	51,420	28	49,730	28	18,450	11
Thoracic surgeons	43,110	21	57,990	26	72,420	35	15,930	7
All surgical specialists	50,950	26	48,010	25	38,910	20	13,540	8
All non-surgical specialists	25,710	19	27,430	20	24,660	17	10,710	8
All M.D.'s	33,480	21	32,030	20	27,490	17	11,440	8

Source: Medical Economics Continuing Survey, 1982, as reported in Owens, Arthur. "How Much of Your Income Comes From Third Parties?" Medical Economics, April 4, 1983.

Supply of Hospital Beds and Physicians

The national supply of community hospital beds per 1,000 population has steadily increased since the 1940's, reaching a peak of 4.6 beds per 1,000 population in 1975. By 1984, the number of beds had dropped to 4.3 per 1,000 populations. Similar trends can be seen in the nine census regions, except for New England, which has seen a reduction since 1940 from 4.4 beds to 4.1 beds per 1,000 population in 1984, and the Pacific region, where the reduction has been from 4.1 beds in 1940 to 3.2 beds in 1984. The area experiencing the largest increase has been the East South Central, where beds increased from 1.7 per 1,000 population in 1940 to 5.1 in 1984. (see table 9).

TABLE 9.—HOSPITAL BEDS PER 1,000 POPULATION,[1] ACCORDING TO GEOGRAPHIC DIVISION: UNITED STATES, SELECTED YEARS 1940–84

[Data are based on reporting by facilities]

Geographic division	Year						
	1940 [2]	1950 [2]	1960 [3]	1970	1975	1980	1984
United States	3.2	3.3	3.6	4.3	4.6	4.5	4.3
New England	4.4	4.2	3.9	4.1	4.2	4.1	4.1
Middle Atlantic	3.9	3.8	4.0	4.4	4.6	4.6	4.5
East North Central	3.2	3.2	3.6	4.4	4.7	4.7	4.6
West North Central	3.1	3.7	4.3	5.7	5.8	5.8	5.6
South Atlantic	2.5	2.8	3.3	4.0	4.3	4.5	4.3
East South Central	1.7	2.1	3.0	4.4	4.9	5.1	5.1
West South Central	2.1	2.7	3.3	4.3	4.7	4.7	4.4

TABLE 9.—HOSPITAL BEDS PER 1,000 POPULATION,[1] ACCORDING TO GEOGRAPHIC DIVISION: UNITED STATES, SELECTED YEARS 1940–84—Continued

[Data are based on reporting by facilities]

Geographic division	Year						
	1940 [2]	1950 [2]	1960 [3]	1970	1975	1980	1984
Mountain	3.6	3.8	3.5	4.3	4.0	3.8	3.6
Pacific	4.1	3.2	3.1	3.7	3.9	3.5	3.2

[1] Civilian population.
[2] 1940 and 1950 data are estimated based on published figures.
[3] 1960 includes hospital units of institutions.

Note. Hospitals include all non-Federal short-stay hospitals classified by the American Hospital Association according to one of the following services: general medical and surgical; obstetrics and gynecology; eye, ear, nose, and throat, rehabilitation; orthopedic; other specialty; children's general; children's eye, ear, nose, and throat; children's rehabilitation; children's orthopedic; and children's other specialty.

Source: Health, United States, 1984. U.S. Department of Health and Human Services. DHHS Publication No. (PHS) 85–1232, Table 66, pp. 127–128. Data for 1984 from the National Center for Health Statistics, unpublished data.

The number of active physicians in the country has increased from 279,212 in 1970 to 552,716 in 1985. This growth rate exceeded the rate at which the population of the Nation grew during the decade. As table 10 below indicates, the ratio of physicians-to-population increased from 137 physicians per 100,000 population in 1970 to 220 physicians per 100,000 population in 1985. This table also indicates variations in the supply of physicians relative to population by State. In 1984, the District of Columbia had the highest ratio (607 physicians per 100,000 population) while Mississippi had the lowest ratio (126 physicians per 100,000 population).

TABLE 10.—NON-FEDERAL PHYSICIAN/POPULATION RATIOS AND RANK BY STATE

[Ratios: Non-Federal physicians (M.D.'s) per 100,000 civilan population]

Geographic area	1970	1975[1]	1985	1985 rank
United States[2]	137	156	220	.....
Alabama	84	100	152	43
Alaska	65	92	137	49
Arizona	123	151	220	15
Arkansas	85	95	150	44
California	175	196	266	7
Colorado	163	172	216	17
Connecticut	178	207	302	5
Delaware	124	138	203	21
District of Columbia	365	436	607	1
Florida	124	155	236	11
Georgia	100	119	172	35
Hawaii	138	160	239	10
Idaho	87	95	133	50
Illinois	130	156	217	16

TABLE 10.—NON-FEDERAL PHYSICIAN/POPULATION RATIOS AND RANK BY STATE—Continued

[Ratios: Non-Federal physicians (M.D.'s) per 100,000 civilan population]

Geographic area	1970	1975[1]	1985	1985 rank
Indiana	96	109	156	41
Iowa	97	105	149	45
Kansas	108	128	179	32
Kentucky	96	117	162	39
Louisiana	114	127	187	28
Maine	98	122	193	24
Maryland	171	206	334	2
Massachusetts	194	222	331	3
Michigan	117	135	190	25
Minnesota	142	162	223	13
Mississippi	78	87	126	51
Missouri	120	141	195	23
Montana	97	111	155	42
Nebraska	106	124	170	37
Nevada	102	117	173	34
New Hampshire	125	146	207	20
New Jersey	136	162	243	9
New Mexico	103	121	184	31
New York	223	235	318	4
North Carolina	103	124	185	29
North Dakota	88	104	168	38
Ohio	125	137	199	22
Oklahoma	94	108	149	46
Oregon	133	160	215	18
Pennsylvania	143	158	234	12
Rhode Island	143	175	248	8
South Carolina	85	106	161	40
South Dakota	76	83	143	47
Tennessee	113	134	189	26
Texas	109	129	174	33
Utah	129	150	185	30
Vermont	169	189	268	6
Virginia	113	136	214	19
Washington	136	154	223	14
West Virginia	98	120	171	36
Wisconsin	113	129	188	27
Wyoming	91	100	140	48

[1] Numbers of active non-Federal physicians are adjusted for 1975 to include about 90 percent of those not classified as to status or activity by the American Medical Association.

[2] Excludes counts of physicians in U.S. possessions and with unknown addresses.

Source: American Medical Association, Division of Survey and Data Resources, Department of Data Release Services.

The number of physicians in the United States is expected to continue to grow at a faster rate than the general population. The Department of Health and Human Services estimated that there were 221 active physicians per 100,000 population in 1985. They project ratios of 238 in 1990, 252 in 1995, and 264 in 2000.

Health Insurance Coverage of the Nonelderly Population

According to the Census Bureau's Survey of Income and Program Population (SIPP), 85 percent of the U.S. population under age 65 were covered by some form of health insurance coverage during the last quarter of 1985. Most of this population (76.6 percent) were covered by private health insurance. Private health insurance is usually obtained under a group health plan at an individual's place of employment. Over 66 percent of the under age 65 population had employer-sponsored coverage at the end of 1985. Despite the prevalence of health insurance coverage, the SIPP data indicate that 31 million Americans or nearly 15 percent of the under 65 population were not covered by any form of health insurance coverage. Other surveys have shown that individuals from certain groups—low income, racial and ethnic minorities, and the unemployed—are more likely to lack health coverage.

TABLE 11.—HEALTH INSURANCE COVERAGE, FOURTH QUARTER—1985

[Numbers in thousands]

	Population	Percent covered by insurance	Number not covered	Percent not covered	Percent distribution of uncovered population
Total	235,520	86.7	31,285	13.3	100.0
Age:					
Less than 16	55,612	84.5	8,616	15.5	27.5
16 to 24	34,596	78.6	7,389	21.4	23.6
25 to 34	41,363	83.6	6,786	16.4	21.7
35 to 44	32,133	89.1	3,514	10.9	11.2
45 to 54	22,459	90.0	2,273	10.1	7.3
55 to 64	22,135	88.5	2,553	11.5	8.2
Total under 65	208,298	85.1	31,131	14.9	99.5
65 and over	27,222	99.4	154	.6	.5
Race:					
White	200,083	87.6	24,840	12.4	79.4
Black	28,496	80.7	5,501	19.3	17.6
Spanish origin [1]	14,175	73.0	3,822	27.0	12.2

[1] Persons of Spanish origin may be of any race.

Note: Numbers do not add due to rounding.

Source: "Disability, Functional Limitation, and Health Insurance Coverage: 1984/85;" Series P–70, No. 8, Table 10, Current Population Reports—Bureau of the Census.

A slightly higher estimate of the number uninsured can be obtained from the Current Population Survey. As table 12 indicates, the number of nonelderly individuals uninsured in 1986 was 36.9 million or 17.6 percent of the nonelderly population. Table 12 also illustrates that the number of individuals without health insurance has increased by 7.3 million from 1980 to 1986.

TABLE 12.—NONELDERLY POPULATION WITHOUT HEALTH INSURANCE, 1980–86

Year	Nonelderly population in millions	Nonelderly uninsured in millions	Percent uninsured
1980	199.0	29.6	14.9
1981	200.6	NA	NA
1982	202.1	30.7	15.2
1983	203.9	32.7	16.0
1984	205.6	35.0	17.0
1985	207.2	36.8	17.8
1986	209.4	36.9	17.6

NA: Not available.

Source: Congressional Budget Office tabulations of Current Population Surveys, March 1980–March 1986.

Relationship of Medicaid Coverage to Poverty of Children

SHARE OF POOR CHILDREN COVERED

Roughly one-half of all poor children (defined as children under 18 whose family income is below the poverty threshold) are covered by Medicaid (see Table 13). One reason that this proportion is not larger is that automatic Medicaid eligibility is generally linked to the receipt of AFDC cash assistance. This has restricted Medicaid coverage in part because AFDC assistance is available only to families where one parent is absent; incapacitated; or in certain States, unemployed. To receive AFDC, a family must also meet a certain cash assistance standard established by each State. In all States except for Alaska, AFDC cash standards are below the Federal poverty threshold (estimated nation-wide for 1984 at $8,280 a year for a family of three). Therefore, many low-income families are not automatically eligible for Medicaid, though some may be able to obtain coverage under a State's medically needy program. Further, Medicaid eligibility requirements can vary widely among the States and families can often go on and off the AFDC (and therefore Medicaid) rolls during the course of a year.

TRENDS IN COVERAGE BY POVERTY STATUS

The percentage of poor children covered by Medicaid has been relatively consistent over time. In fact, the 1979 and 1983 percentages are identical—48.5 percent. This figure has not varied by more than two percentage points over the seven-year span (see Table 13).

TABLE 13.—CHILDREN IN POVERTY AND MEDICAID COVERAGE, ALL CHILDREN UNDER 18

[Numbers in thousands]

Year	All poor children		
	Poor children	Covered by Medicaid	Percent
1979	10,111	4,907	48.5
1980	11,764	5,525	47.0
1981	12,505	5,811	46.5
1982	13,647	6,429	47.1
1983	13,807	6,693	48.5
1984	13,419	6,622	49.3
1985	13,010	6,569	50.5

Note: This table is based on data obtained annually from the Current Population Survey (CPS) conducted by the Bureau of the Census and from supplementary surveys. Since the CPS estimates are based on a sample, they may differ somewhat from figures that would have been obtained if a complete census had been taken. The CPS data also are lower than program data from the Health Care Financing Administration (HCFA) because recipients tend to underreport their benefits in these surveys. Further, the CPS totals do not include children in institutions and may not include "Ribicoff children."

Source: March Current Population Survey (CPS) 1980–1986. Table prepared by CRS.

APPENDIX E. MEDICARE REIMBURSEMENT TO HOSPITALS [1]

Before the passage of the Social Security Amendments of 1983 (P.L. 98-21) the Medicare program reimbursed hospitals according to the reasonable costs they incurred in providing services to Medicare beneficiaries. Because the actual reasonable costs could not be determined until after the hospital had provided the services and reported its costs to the Medicare program, this method of reimbursement was known as retrospective cost-based reimbursement.

Under authority provided by the Social Security Amendments of 1972 (P.L. 92-603), the Department of Health and Human Services (HHS) placed certain limits on routine operating costs recognized as reasonable (referred to as section 223 limits for the specific section in the law). The Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248, commonly referred to as TEFRA) expanded previously existing limits to include all other inpatient hospital operating costs. Further, it established a new 3-year Medicare ceiling (or target rate) on the allowable annual rate of increase in operating costs per case for inpatient hospital services. TEFRA also required that HHS develop proposals for the prospective payment of hospitals under Medicare. The proposal from HHS was presented to the Congress at the end of 1982.

Legislation based on this prospective payment proposal was the basis for Public Law 98-21, which established a new method of Medicare reimbursement for inpatient hospitals—the prospective payment system (PPS). This appendix describes the major reimbursement provisions of PPS.

General Summary

Effective for hospital cost reporting periods that began on or after October 1, 1983, Medicare payment for hospital inpatient services is made according to a prospective payment system, rather than a retrospective cost-based system. Medicare payments are made at predetermined, specific rates which represent the average cost, nationwide, of treating a Medicare patient according to his or her medical condition. The classification system used to group hospital inpatients according to their diagnoses is known as diagnosis-related groups (DRGs). Separate DRG rates apply depending on whether a hospital is located in an urban or rural area of the country, as determined by the Office of Management and Budget (OMB) Metropolitan Statistical Area system.

During a 4-year transition period, a declining portion of the total prospective payment is based on a hospital's historical reasonable costs and an increasing portion is based on a combination of region-

[1] This appendix draws heavily from a Congressional Research Service issue brief entitled: "Medicare: Prospective Payments for Inpatient Hospital Services."

al and national Federal DRG rates. In the fifth year of the program (fiscal year 1988) and thereafter, Medicare payments are determined totally under a national DRG payment methodology. Special transition provisions apply to hospitals in Oregon.

If a hospital can treat a patient for less than the payment amount, it can keep the savings. If the treatment costs more, the hospital must absorb the loss. A hospital is prohibited from charging Medicare beneficiaries any amounts (except for deductibles, coinsurance amounts, and for services not covered by Medicare) which represent any difference between the hospital's cost of providing covered care and the Medicare DRG payment amount.

Certain hospital costs are excluded from the prospective payment system and are paid on a reasonable cost basis. In addition, certain hospitals are excluded from the new system and continue to be reimbursed on a reasonable cost basis, subject to rate of increase limits. Authority is provided for States to establish their own all-payer hospital payment systems if they meet certain Federal requirements.

Prospective Payment System

Unless excluded from the prospective payment system, all Medicare participating hospitals are paid a specific amount for inpatient services provided to Medicare beneficiaries based on the patient's classification into one of 471 DRGs. Separate DRG rates apply to hospitals located in urban or rural areas of the country as determined by OMB's Metropolitan Statistical Area system (urban rates are higher than rural rates). Hospitals located in areas reclassified from urban to rural are allowed a 2-year transition to rural rates. In addition, the DRG rates are adjusted for area differences in hospitals wage levels compared to the national average hospital wage level.

Transition period

Application of the DRG payment rates (urban and rural) is being phased in over a 4-year transition period, starting with each hospital's first cost reporting period which began on or after October 1, 1983. During the transition period, a hospital's payment rate is a combination of the Federal DRG payment rates and the hospital's historical costs; in addition, during the transition, the Federal DRG portion of the rate is based on a combination of national rates and regional rates for each of the nine census regions of the country. (See table 1.)

Thus, during the first year of the program (fiscal year 1984), 25 percent of the prospective payment was based on Federal DRG rates (100 percent regional) and 75 percent was based on each hospital's cost base. In the second year (fiscal year 1985), 50 percent of the payment was based on a combination of national and regional Federal DRG rates (25 percent national, 75 percent regional) and 50 percent was based on each hospital's cost base or specific portion. In the third year (fiscal year 1986), for the first 7 months of a hospital's cost reporting period, 50 percent of the payment was based on the hospital specific portion and 50 percent on Federal DRG rates (75 percent regional and 25 percent national); during

the remaining 5 months of a hospital's cost reporting period 45 percent of the payment was based on the hospital specific portion and 55 percent on Federal DRG rates (75 percent regional and 25 percent national). In the fourth year (fiscal year 1987), 25 percent of the payment is based on the hospital specific portion and 75 percent on Federal DRG rates (50 percent regional and 50 percent national). In the fifth year (fiscal year 1988) and subsequent years, the payment will be determined using 100 percent national Federal DRG rates. As provided in Public Law 99-272, special transition payment provisions apply to hospitals in Oregon.

TABLE 1.—MEDICARE PROSPECTIVE PAYMENT SYSTEM TRANSITION SCHEDULE

Fiscal year [1]	Hospital specific portion (percent)	Federal DRG portion (percent)
1984	75	25 (0 national plus 100 regional).
1985	50	50 (25 national plus 75 regional).
1986 [2]	[3] 50	50 (25 national plus 75 regional).[3]
	[4] 45	55 (25 national plus 75 regional).[4]
1987 [2]	25	75 (50 national plus 50 regional).
1988 [2]	0	100 (100 national plus 0 regional).

[1] The hospital-specific portion and the Federal DRG amount change with the beginning of the hospital's fiscal year. The Federal (national and regional) rates and their proportional shares change with the beginning of the Federal fiscal year.

[2] Special payment rules apply to hospitals in Oregon.

[3] Effective during the first 7 months of a hospital's cost reporting period beginning on or after October 1, 1985.

[4] Effective during the remaining 5 months of a hospital's cost reporting period beginning on or after October 1, 1985.

DRG payment levels and updating

The payment rates for each DRG were derived from an average of historical (1981) Medicare cost data for each hospital. The rates were updated through fiscal year 1983 by the estimated actual rate of increase in hospital costs nationally. By law, the rates were increased for fiscal year 1984 by the estimated annual increase in a market basket index, representing the cost of goods and services purchased by hospitals, plus 1 percentage point. For fiscal year 1985, DEFRA provided that the rate of increase was the increase in the market basket, plus one-quarter of 1 percentage point. For fiscal years 1984 and 1985, the DRG rates were adjusted so that the total payments under the prospective system equaled the payments which would have been made under the reasonable cost reimbursement provisions of prior law as limited by the target rate of increase provisions established by TEFRA (this requirement is known as "budget neutrality").

Public Law 99-201 (the Emergency Extension Act of 1985) and Public Law 99-272 (COBRA) provided that the fiscal year 1986 PPS payment rates would be frozen at fiscal year 1985 levels until May 1, 1986, and would be increased ½ percent for the remainder of the fiscal year. Public Law 99-177 (the Balanced Budget and Emergen-

cy Deficit Control Act of 1985, known as Gramm-Rudman-Hollings) reduced fiscal year 1986 Medicare payments to hospitals by 1 percent beginning March 1, 1986.

For fiscal years 1987 and 1988, Public Law 99-272 provided that the Secretary could determine any change in the PPS payment rates, taking into account the recommendations of the Prospective Payment Assessment Commission, not to exceed the market basket index change. However, Public Law 99-509 replaced the Secretary's determination that the PPS rates for fiscal year 1987 would be increased by 0.5 percent, and provided that the rates would be increased by 1.15 percent in fiscal year 1987 and by the hospital market basket minus 2 percentage points in fiscal year 1988.

The market basket is defined in table 2. This is a uniform index for all hospitals and yields one price inflator for all hospitals in a given year. The relative importance weights of the different categories of cost changes periodically.

TABLE 2.—HOSPITAL PROSPECTIVE REIMBURSEMENT INPUT PRICE INDEX (THE "MARKET BASKET")

[1986 relative importance weights] [1]

Expense categories	
1. Wages and Salaries [2]	57.29
2. Employee Benefits [2]	10.05
3. Professional Fees [2]	.78
4. Energy and Utilities	2.25
a. Fuel, Oil, Coal, and Other Petroleum	.60
b. Electricity	1.06
c. Natural Gas	.35
d. Motor Gasoline	.21
e. Water and Sewage	.03
5. Malpractice Insurance	1.19
6. All Other	28.44
All Other Products	19.77
a. Pharmaceuticals	4.92
b. Food	3.29
(1) Contract Service	1.28
(2) Direct Purchase	2.01
c. Chemicals and Cleaning Products	2.42
d. Surgical and Medical Instruments	2.13
e. Photographic Supplies	2.08
f. Rubber and Plastics	1.86
g. Paper Products	1.09
h. Apparel	.92
i. Minor Machinery Equipment	.39
j. Miscellaneous Products	.67
All Other Services	8.67
a. Business Services [2]	3.00
b. Computer and Data Processing Services [2]	1.53
c. Transportation and Shipping	.97
d. Telephone	.81

TABLE 2.—HOSPITAL PROSPECTIVE REIMBURSEMENT INPUT PRICE INDEX (THE "MARKET BASKET")—Continued

[1986 relative importance weights] [1]

Expense categories	
e. Blood Services [2]	.47
f. Postage [2]	.30
g. All Other Services Labor Intensive [2]	.97
h. All Other Services: Nonlabor Intensive	.62
Total	100.00

[1] These weights are used to develop the revised labor-related/nonlabor-related components of the standardized rates.

[2] Considered labor-related.

Source: 51 F.R. 31530, September 3, 1986.

Public Law 98–21 required the HHS Secretary to adjust the DRG classification and weighting factors in fiscal year 1986 and at least every 4 years thereafter to reflect changes in treatment patterns, technology, and other factors which may change the relative use of hospital resources. Public Law 99–509, however, required the Secretary to adjust the DRG classification and weighting factors each year, beginning in fiscal year 1988.

Table 3 provides historical data on recent trends in some of the factors related to increases in the PPS payment rates and increases in average payments per Medicare discharge. Trends in the general level of prices of goods services as measured by the GNP deflator are also shown for comparison.

The annual update factor applied to increase the PPS standardized payment amounts for the forthcoming year is determined, in part, by the projected rate of increase in the hospital market basket index. The update factor also includes adjustments for increases in hospital productivity, technological change, changes in practice patterns (e.g., the decline in length of stay) and other factors that are expected to affect the level of operating cost per discharge. It is also adjusted to offset that part of the historical increase in average payments per case that is attributable to increases in reported case mix due to changes in coding and reporting accuracy.

Note, however, that the actual increase in the PPS payment rates (the DRG prices) has differed from the update factor each year for several reasons. For example, in the first 2 years, (fiscal years 1984 and 1985) the PPS payment rates were required to be adjusted so that aggregate payments to hospitals included in PPS would be equal to the aggregate payments they would have received if they had been paid under the provisions of prior law (the reasonable cost limits established in TEFRA, Public Law 97–248). As a result of the budget neutrality adjustment, the actual increase in the DRG prices was lower than the increase provided by the PPS update factor. In fiscal year 1986, the PPS rates were frozen by the Congress and the update factor of 0.5 percent established in COBRA (Public Law 99–272) applied for only the last 5 months of

the fiscal year. Actual increases in the DRG rates in all 3 years also have been affected by changes in policy that required recalculation or adjustment of the standardized payment amounts or the DRG relative weights.

Actual annual increases in average payments per case depend on a variety of factors in addition to the increase in the PPS rates. Average payments per case include PPS operating payments (DRG payments), payments for the indirect costs of medical education programs, payments for direct medical education costs, payments for capital-related costs and other passthrough payments (kidney acquisition costs, etc.) and payments to hospitals and units excluded from PPS. Therefore, annual increases in average payments per case depend on the increase in the PPS payment rates (which may be larger or smaller than the update factor), the increase in reported case mix and the increases in payments for medical education, capital costs, and payments to excluded hospitals and units. In addition, the increase in actual average payments per case is influenced by changes in other policies. For example, the phaseout of payments for a return on equity capital for proprietary providers will reduce the increase in average payments per case. Similarly, policy changes that increase the number of cases in which the Medicare program is the secondary payer also reduce the increase in the average payment per case. Thus, average payments per discharge may be influenced by factors unrelated to PPS payment policy.

TABLE 3.—HISTORICAL TRENDS IN FACTORS AFFECTING THE PPS RATES AND AVERAGE PAYMENTS PER CASE

[Percentage increase from the previous year]

	Market basket index	Annual update factor	Case mix index	Average payment per case	GNP deflator
Fiscal year:					
1980	11.5	.....		15.2	9.1
1981	10.5	.....		18.1	9.6
1982	8.3	.....		10.5	6.4
1983	5.9	.....		9.9	3.8
1984	4.9	[1]	[2] 8.4	10.1	3.9
1985	4.1	[3]	2.5	13.2	3.4
1986	3.1	[4] 0.5	2.7	5.3	2.9

[1] The update factor of market basket plus one percentage point was offset by adjustments including the budget neutrality adjustment.

[2] Percentage increase from calendar year 1981 to fiscal year 1984.

[3] The update factor of market basket plus one-quarter of one percentage point was offset by adjustments including the budget neutrality adjustment.

[4] Effective for discharges on or after May 1, 1986 for the Federal portion of the PPS rates and beginning with the 8th month of cost reporting periods beginning on or after Oct. 1, 1985 and before Oct. 1, 1986.

Source: Health Care Financing Administration.

Additional payment amounts

In addition to the DRG prospective payment rates, Medicare payments are made to hospitals for the following items or services:

Outliers

Additional amounts are paid to hospitals for atypical cases (known as "outliers") which have either extremely long lengths of stay or extraordinarily high costs compared to most discharges classified in the same DRG. The law requires that total outlier payments to hospitals covered by the system represent no less than 5 percent and no more than 6 percent of the total estimated Medicare prospective payments for the fiscal year. Effective with discharges occurring on or after October 1, 1984, a transferring hospital may qualify for an additional payment for extraordinarily high-cost cases meeting the criteria for cost outliers. Outlier payments are financed by an offsetting overall reduction in the Federal portion of the DRG rates. Effective October 1, 1986, Public Law 99–509 established a separate urban and a separate rural set-aside factor for outliers.

Indirect medical education costs

Additional payments are made to hospitals under the prospective system for the indirect costs attributable to approved medical education programs. These indirect costs may be due to a variety of factors, including the extra demands placed on the hospital staff as a result of the teaching activity or additional tests and procedures that may be ordered by residents. Congressional reports on the PPS authorizing legislation indicate that the indirect medical education payments are also to account for factors not necessarily related to medical education which may increase costs in teaching hospitals, such as more severely ill patients, increased use of diagnostic testing, and higher staff-to-patient ratios.

As amended by Public Law 99–272, the additional payment to a hospital is based on a formula that provides an increase of approximately 8.1 percent in the Federal portion of the DRG payment, from May 1, 1986, to October 1, 1989. The payment increases with the ratio of a hospital's interns and residents to its bed size on a curvilinear or variable basis (i.e., the increase in the payment is less than proportional to the increase in the ratio of interns and residents to bed size). The payment adjustment after October 1, 1989, would be an increase of approximately 8.7 percent.

Disproportionate share hospitals

Public Law 99–272 provided that additional payments will be made from May 1, 1986, to October 1, 1988, to hospitals that serve a disproportionate share of low-income patients. For urban PPS hospitals with more than 100 beds having a percentage of low-income patients of at least 15 percent, the Federal portion of the hospital's PPS payment would be increased by 2.5 percent plus one-half the difference between 15 percent and the hospital's percentage of low-income patients, not to exceed a 15 percent adjustment. For urban hospitals with less than 100 beds having a percentage of low-income patients of at least 40 percent, the payment increase

would be 5 percent. For rural hospitals having a low-income patient percentage of at least 45 percent, the payment increase would be 4 percent.

The percentage of low-income patients is defined as the hospital's total number of inpatient days attributable to Federal Supplemental Security Income Medicare beneficiaries divided by the total number of Medicare patient days, plus the number of Medicaid patient days divided by the total patient days.

Payments will also be made to urban hospitals with 100 or more beds which demonstrate that more than 30 percent of their revenues are derived from State and local government payments for indigent care (excluding payments under Medicare and Medicaid).

Public Law 99–509 authorized the Secretary to establish a separate threshold percentage of low-income patients required for rural hospitals of 500 or more beds to qualify for disproportionate share payments. The legislation also continued payment to disproportionate share hospitals through October 1, 1989, in a budget neutral fashion (i.e., the Federal portion of DRG payment rates is reduced from 8.7 to 8.1 percent to finance the disproportionate share payments).

Direct medical education costs

The direct costs of approved medical education programs (such as the salaries of residents and teachers and other education costs for residents, nurses, and allied health professionals) are excluded from the prospective payment system. The direct medical education costs for the training of nurses and allied health professionals are paid for on a reasonable cost basis.

Public Law 99–272 provided that payments for the cost of approved graduate medical education programs (i.e., residency training programs for physicians) be made as follows: For cost reporting periods beginning on or after July 1, 1985, the Medicare payment to each hospital will equal the hospital's full-time equivalent (FTE) resident amount, times the weighted average number of FTE residents, times the percentage of inpatient days attributable to Medical Part A beneficiaries. For each hospital with an approved medical residency training program, an average cost per FTE resident will be calculated using data from the hospital's cost reporting period that began in fiscal year 1984. These FTE amounts will be updated by the increase in the CPI over the next 12-month period; for hospital cost reporting periods beginning July 1, 1985, the FTE resident amounts will be increased by 1 percent; and for subsequent cost reporting periods, the FTE amounts will be updated by the change in the CPI.

The number of FTE residents will be calculated as follows; before July 1, 1986, the weighting factor for each FTE resident will be 100 percent; after July 1, 1986, the weighting factor for residents in their initial residency period (i.e., within the minimum number of years of formal training necessary to satisfy specialty requirements for board eligibility plus 1 year, but not to exceed 5 years) will be 100 percent; after July 1, 1986, but before July 1, 1987, the weighting factor for residents not in their initial residency period will be 75 percent; after July 1, 1987, the weighting factor for residents not in their initial residency period will be 50 percent. Geriatric resi-

dencies or fellowships not exceeding 2 years are excluded from these limits.

On or after July 1, 1986, residents who are foreign medical graduates (FMGs) will not be counted as FTE residents unless they have passed the Foreign Medical Graduate Examination in the Medical Sciences or have previously received certification from or have passed an examination of the Educational Commission for Foreign Medical Graduates. Those foreign medical graduates who were in training before July 1, 1986, and who are still residents will be counted at the 50 percent rate.

Public Law 99–509 provided that time spent in a nonhospital outpatient setting is reimbursable by Medicare if the hospital incurs substantially all of the costs of residency training in the ambulatory setting.

Payments on a reasonable cost basis

Costs for certain items are excluded from the prospective payment system and thus are not included in the prospective payment rates. Medicare pays for its share of the following costs according to the former reasonable cost-based system:

Capital-related costs.—Capital-related costs (including depreciation, leases and rentals, interest, and a return on equity for proprietary hospitals) are excluded from the prospective payment system until no earlier than October 1, 1987, and are paid for on a reasonable cost basis (i.e., the hospital's actual capital costs multiplied by Medicare's share of total capital costs attributable to inpatient services as modified by Public Law 99–509). Public Law 98–21 required the Secretary to report to Congress within 18 months of enactment (October 1984) on methods and proposals by which capital costs can be included in the prospective payment rates. In March 1986, HHS submitted a report to Congress on incorporating capital costs in the prospective payment rates.

If Congress does not enact legislation by October 1, 1987, to include capital-related costs under PPS, Medicare payment for capital costs will be prohibited after September 30, 1987, unless a State has a capital expenditure review agreement with the Secretary (under section 1122 of the Social Security Act) and the State has recommended approval of the specific capital expenditure.

Public Law 99–272 provided that payments to proprietary hospitals for a return on equity (ROE) will be separated from payments for other capital costs and will be phased out as follows: for hospital cost reporting periods beginning in fiscal year 1987, payment will equal 75 percent of the otherwise allowable ROE amount; for fiscal year 1988, 50 percent; for fiscal year 1989, 25 percent; and for fiscal year 1990 and thereafter, no ROE payments will be made.

Public Law 99–509 reduced payment amounts for capital-related costs by 3.5 percent for portions of cost-reporting periods in fiscal year 1987, 7 percent for fiscal year 1988, and 10 percent for fiscal year 1989. The legislation exempts sole community hospitals from capital-related payment reductions and regulations for 3 years. It also clarifies that the HHS Secretary may incorporate capital-related costs, on a budget neutral basis into PPS, effective October 1, 1987.

Physicians in teaching hospitals.—If a teaching hospital so elects, the direct medical and surgical services of physicians in such hospitals will be excluded from the prospective payment system and paid for on the basis of reasonable costs.

Kidney acquisition costs.—The estimated net expenses associated with kidney acquisition in certified renal transplantation centers are excluded from the prospective payment system. Prospective payments to a hospital are adjusted in each reporting period to compensate for the reasonable expenses of kidney acquisition.

Anesthesia services of hospital-employed nonphysician anesthetists.—Public Law 98–21 excluded the costs of anesthesia services provided by qualified nonphysician anesthetists employed by the hospital or obtained under arrangements (contracts) from the prospective payment system and provided for payments on the basis of reasonable costs for cost reporting periods beginning on or after October 1, 1984, and before October 1, 1987.

Public Law 99–509 extended current payment provisions for the services of hospital-employed certified registered nurse anesthetists (CRNAs) for cost reporting periods beginning before October 1, 1988. The legislation authorized direct reimbursement to a CRNA for anesthesia services and related care which he or she is legally authorized to perform in the State. These payments would be made equal to the lower of 80 percent of actual charges or 80 percent of a fee schedule amount established by the Secretary. This provision is to be budget neutral. CRNAs would be required to accept Medicare's determination of the allowable amount (Medicare's payment plus the patient's 20 percent coinsurance amount) as payment-in-full for all Medicare services. The fee schedule would apply to services provided after October 1, 1989. Special limits on the actual charges of nonparticipating physicians for CRNA services and medical direction would apply.

Bad debts of Medicare beneficiaries

An additional payment is made to hospitals for bad debts attributable to unpaid deductible and coinsurance amounts related to covered services received by Medicare beneficiaries.

ESRD beneficiary discharges

Effective with cost reporting periods beginning on or after October 1, 1984, additional payments are made to hospitals for inpatient dialysis provided to end-stage renal disease (ESRD) beneficiary discharges if such discharges are 10 precent or more of the hospital's total discharges. A hospital meeting the criteria is paid an additional payment for each ESRD beneficiary discharge based on the estimated weekly cost of dialysis and the average length of stay of its ESRD beneficiaries.

Calculation of Prospective Payment System payment amount

Payments to hospitals during the fiscal year 1987 for inpatient stays are based on a combination of a hospital specific rate (based on the hospital's own cost experience) and a Federal DRG rate (see table 1). The following is an explanation of how the payment amount would be calculated:

For fiscal year 1987, 25 percent of the payment is based on hospital-specific rates and 75 percent is based on Federal DRG rates. The Federal DRG based portion is, in turn, composed of 50 percent national rates and 50 percent regional rates. Over the PPS transition period, payments have gradually taken into account a greater proportion of national, and a lesser proportion of regional and hospital-specific rates. In fiscal year 1988, the PPS payment amount is scheduled to be based entirely on the national rates.

For fiscal year 1987, the Secretary has promulgated 20 average adjusted standardized amounts per Medicare discharge (i.e., an urban amount and a rural amount for each of the nine census regions of the Nation as a whole). These amounts include a labor-related and nonlabor-related component (see table 4).

TABLE 4.—AVERAGE ADJUSTED STANDARDIZED AMOUNTS BY CENSUS REGION, FISCAL YEAR 1987

[In dollars]

Region	Urban			Rural		
	Total	Labor-related	Nonlabor related	Total	Labor-related	Nonlabor related
1. New England (CT, ME, MA, NH, RI, VT)	3,068.62	2,239.54	829.08	2,747.60	2,096.37	651.23
2. Middle Atlantic (PA, NJ, NY)	2,867.29	2,063.82	803.47	2,801.17	2,141.54	659.63
3. South Atlantic (DE, DC, FL, GA, MD, NC, SC, VA, WV)	2,946.29	2,198.97	747.32	2,492.95	1,946.84	546.11
4. East North Central (IL, IN, MI, OH, WI)	3,164.37	2,889.96	874.41	2,597.27	1,982.80	614.47
5. East South Central (AL, KY, MS, TN)	2,728.10	2,069.40	658.70	2,436.62	1,927.56	509.06
6. West North Central (IA, KS, MN, MO, NB, ND, SD)	2,916.51	2,135.28	781.23	2,331.41	1,804.23	527.18
7. West South Central (AR, LA, OK, TX)	2,880.11	2,149.86	730.25	2,323.13	1,813.85	509.28
8. Mountain (AZ, CO, ID, MT, NV, NM, UT, WY)	2,868.49	2,084.49	784.00	2,357.55	1,786.08	571.47
9. Pacific (AK, CA, HI, OR, WA)	2,946.16	2,045.36	900.80	2,456.43	1,791.88	664.55
10. National	2,970.31	2,158.76	811.55	2,449.91	1,889.58	560.33

Source: 50 FR 42229, Nov. 24, 1986.

Determination of the Federal DRG portion of the payment

The *Federal DRG portion* of the payment rate for each hospital in fiscal year 1987 is made up of a national and a regional component.

To determine the *national component*, the labor-related portion of the national standardized amount is multiplied by the appropriate hospital wage index (which depends on whether the hospital is in a Metropolitan Statistical Area). (See "Source and calculation of the hospital wage index" which accompanies tables 5 and 6.) The wage adjusted labor-related portion is then added to the nonlabor-related portion of the national standardized amount (after adjustment for hospitals located in Alaska and Hawaii). The resulting total is multiplied by 50 percent in fiscal year 1987 to determine the national portion.

To determine the *regional component*, the labor-related portion of the standardized amount for the hospital's region is multiplied by the appropriate wage index, which is then added to the nonlabor-related portion for that region (after adjustment for hospitals located in Alaska and Hawaii). The resulting total is multiplied by 50 percent in fiscal year 1987 to determine the regional component.

These two components are then added together and multiplied by 50 percent in fiscal year 1987 to determine the Federal DRG portion.

For an example of computing the PPS payment, assume a sample hospital is located in Washington, D.C. Such a hospital would be in an urban area, in census region 3, and would have a hospital wage index of 1.1870. The calculation for the sample hospital would be made as follows:

—The national component would be derived by multiplying the labor-related portion of the national standardized amount ($2,158.76) by the appropriate hospital wage index (1.1870 for Washington, D.C.) for a wage-adjusted labor-related component of $2,562.45. This component is added to the nonlabor-related portion of the national standardized amount ($811.55) for a total of $3,374.00. This amount is multiplied by 50 percent to yield a national component of $1,687.00.

—The regional component would be derived by multiplying the labor-related portion of the regional standardized amount ($2,198.97 for census region 3) by the same hospital wage index (1.1870 for Washington, D.C.) for a wage-adjusted labor-related component of $2,610.18. This component is added to the nonlabor-related portion of the regional standardized amount ($747.32 for census region 3) for a total of $3,357.50. This amount is multiplied by 50 percent to yield a regional component of $1,678.75.

—The national and regional components are added together ($3,365.75) and multiplied by 75 percent to yield a Federal DRG portion of $2,524.31.

Determination of the hospital-specific portion of the payment

The hospital-specific portion of the payment is based on a hospital's historical cost experience. This is derived for the hospital's 1987 cost reporting year by multiplying the hospital-specific portion used at the end of the prior year by an update factor. This amount is then multiplied by 25 percent to determine the hospital-specific portion.

For the sample hospital, the hospital-specific portion would look like this:

$3,111.41 × 1.0115 × 25 PERCENT = $786.80

Determination of the total payment

The Federal DRG portion of the payment rate would be added to the hospital-specific portion of the payment rate.

For the sample hospital, the sum would be calculated like this:

$2,524.31 + $786.80 = $3,311.11

To determine the total payment to the hospital for a particular DRG, this total is multiplied by the relative weight for that particular DRG. Each of the 471 DRGs has been assigned its own relative weight. (See table 5 for the relative weights of the 25 highest-volume DRGs.)

For the sample hospital, for DRG 88 (chronic obstructive pulmonary disease), which in fiscal year 1987 has a relative weight of 1.0768, the total payment rate for the hospital in our example would be calculated like this:

$3,311.11 × 1.0768 = $3,565.40

This payment calculation is repeated for each inpatient case at the sample hospital to determine the total payment for the hospital. The DRG weights range from a low of 0.1136 (for DRG 382, false labor) to a high of 12.3234 (for DRG 472, extensive burns with operating room procedure).

The payment rates for the sample hospital in fiscal year 1987 would therefore vary from a low of $405.03 ($3,565.40 × 0.1136) to a high of $43,937.88 ($3,565.40 × 12.3234).

As described in a previous part of this appendix, additional payments are made for outliers, indirect medical education costs, hospitals that serve a disproportionate share of low-income patients, and direct medical education costs. Costs for certain items are excluded from the prospective payment system and are paid on a reasonable cost basis—such as costs of capital, certain physicians in teaching hospitals, kidney acquisition, anesthesia services of hospital-employed nonphysician anesthetists, bad debts of Medicare beneficiaries, and end-stage renal disease beneficiary discharges.

TABLE 5.—25 HIGHEST-VOLUME DIAGNOSIS RELATED GROUPS, FISCAL YEAR 1986

Fiscal year 1985 rank	DRG No.	Description	Relative weight	Geometric mean length of stay [1]	Outlier threshold [2]
1	127	Heart failure and shock	1.0098	6.8	24
2	89	Simple pneumonia and pleurisy [3]	1.1657	7.5	25
3	140	Angina pectoris	.6894	4.6	16
4	14	Specific cerebrovascular disorders except transient ischemic attacks	1.3143	6.5	26
5	182	Esophagitis, gastroenteritis, and miscellaneous disgestive disorders [3]	.6032	4.8	18
6	96	Bronchitis and asthma [3]	.8446	6.0	20
7	138	Cardiac Arrhythmia and conduction disorders [3]	.8136	4.9	21
8	296	Nutritional and miscellaneous metabolic disorders [3]	.8271	6.1	23
9	209	Major joint and limb reattachment procedures	2.3925	14.4	31
10	336	Transurethral prostatectomy [3]	.9869	7.0	18
11	88	Chronic obstructive pulmonary disease	1.0768	6.6	24
12	15	Transient ischemic attacks and precerebral occlusions	.6241	4.7	19
13	243	Medical back problems	.6840	6.2	23
14	174	Gastrointestinal hemorrhage [3]	.9073	5.8	23
15	320	Kidney and urinary tract infections [3]	.8626	6.5	24
16	122	Circulatory disorders with acute myocardial infarction, without cardiovascular complications, discharged alive	1.3267	8.8	26
17	468	Unrelated operating room procedures	2.4516	11.7	29
18	121	Circulatory disorders with acute myocardial infarction and cardiovascular complications, discharged alive	1.7687	10.3	27
19	210	Hip and femur procedures except major joint [3]	2.0317	14.6	32
20	148	Major small and large bowel procedures [3]	2.9401	15.3	32
21	294	Diabetes, age over 35	.7454	6.7	24
22	430	Psychoses	1.0760	10.5	28
23	410	Chemotherapy	.4284	2.4	9
24	141	Syncope and collapse [3]	.6187	4.4	18
25	82	Respiratory neoplasms	1.1258	6.6	24

[1] Used to determine payment for outlier and transfer cases.
[2] The day on which outlier payments would begin.
[3] Age over 69 and/or complicating conditions.

Source: Fiscal year 1986 rank from Health Care Financing Administration prospective payment system monitoring tables using preliminary data based on bill records received and processed in HCFA central office through July 25, 1986. NOTE: Values for relative weight, geometric mean length of stay, and outlier threshold are from 51 F.R. 31453, September 3, 1986; these values will be used for fiscal year 1987 discharges. Two different sets of relative weights were used for DRGs in fiscal year 1986—relative weights as cited in the August 31, 1984 Federal Register (49 F.R. 34728) for discharges occurring from October 1, 1985 to April 30, 1986; and relative weights as cited in the September 3, 1985 Federal Register (50 F.R. 35646) for discharges occurring from May 1, 1986 to September 30, 1986.

Source and calculation of the hospital wage index

The hospital wage index is used to adjust a hospital's DRG payment for the wage level of the hospital's area. This is accomplished by multiplying the labor-related components of the Federal portion of the payment rates by a wage index. The wage index is intended to measure the average wage level for hospital workers in each urban area (metropolitan statistical area or MSA) or rural area

(non-MSA parts of States) relative to the national average wage level. The index is based on compensation and employment data for hospital workers as reported to the Bureau of Labor Statistics in the U.S. Department of Labor by county.

The calculation of the index begins with the area average hospital wage and salary amount. For each MSA or non-MSA (i.e., all non-MSA counties in a State) total county compensation and total employment data are summed separately over all counties included in a particular MSA. Then aggregate hospital compensation for the area is divided by aggregate hospital employment in the area to produce the area average wage and salary amount. The hospital wage index is calculated by dividing the average wage and salary amount for each area by the national average wage and salary amount (determined by summing the area amounts over all areas and dividing the sum by the number of areas).

This procedure results in an index number, such as 0.8774 (Asheville, North Carolina) or 1.2866 (Sacramento, California) for each MSA or non-MSA area in the United States. Since the national average wage level is represented by an index value of 1.000, the wage index value for any area has a direct and simple interpretation. The value of 1.2866 for Sacramento means that average wage and salary compensation per employee is 28.66 percent higher in the Sacramento MSA than the national average compensation per employee.

Thus, in computing the Federal portion of the hospital payment rates applicable for hospitals in the Sacramento MSA, the labor-related components of the urban adjusted standardized payment amounts (national: $2,158.76 and region 9: $2,045.36) would be multiplied by 1.2886 in order to adjust for the higher level (28.66 percent) of employee compensation in this area. Similarly, the calculation of the Federal portion of the rates for hospitals in Asheville would involve a reduction in the published labor-related components of the national and region 3 adjusted standardized payment amounts, to reflect the fact that average wage levels in this MSA are 12.26 percent lower than the national average (as indicated by the wage index value of 0.8774).

The Deficit Reduction Act of 1984 required HHS to conduct a study to develop an appropriate wage index, taking into account wage differences of full-time and part-time employees. If changes were made to the wage index as a result of this study, the Secretary was required to make retroactive adjustments to the PPS payment amounts for hospital cost reporting periods beginning on or after October 1, 1983. The Department surveyed hospitals subject to PPS to obtain new wage and employment data, and submitted a report to Congress on March 29, 1985, describing two new wage indexes developed from this data.

In final PPS regulations published September 3, 1985 (50 FR 35645), HHS proposed to implement one of these indexes—the gross wage index—effective October 1, 1985. However, Public Law 99-107, as amended by Public Law 99-201, precluded any changes in the PPS payment rates or methodology through March 14, 1986. This was continued through April 30, 1986 by Public Law 99-272. The gross wage index became effective on May 1, 1986.

TABLE 6.—WAGE INDEX FOR URBAN AREAS

Urban area (constituent counties or county equivalents)	Wage Index
Abilene, TX	.8931
Taylor,TX	
Akron, OH	1.0993
Portage, OH	
Summit, OH	
Albany, GA	.8118
Dougherty, GA	
Lee, GA	
Albany-Schenectady-Troy, NY	.9175
Albany, NY	
Greene, NY	
Montgomery, NY	
Rensselaer, NY	
Saratoga, NY	
Schenectady, NY	
Albuquerque, NM	1.0991
Bernalillo, NM	
Alexandria, LA	.9096
Rapides, LA	
Allentown-Bethlehem, PA-NJ	1.0372
Warren, NJ	
Carbon, PA	
Lehigh, PA	
Northampton, PA	
Altoona, PA	.9943
Blair, PA	
Amarillo, TX	.9520
Potter, TX	
Randall, TX	
Anaheim-Santa Ana, CA	1.2516
Orange, CA	
Anchorage, AK	1.5724
Anchorage, AK	
Anderson, IN	.9696
Madison, IN	
Anderson, SC	.8303
Anderson, SC	
Ann Arbor, MI	1.2507
Washtenaw, MI	
Anniston, AL	.8452
Calhoun, AL	
Appleton-Oshkosh-Neenah, WI	1.0582
Calumet, WI	
Outagamie, WI	
Winnebago, WI	
Asheville, NC	.8774
Buncombe, NC	
Athens, GA	.8115
Clarke, GA	
Jackson, GA	
Madison, GA	
Oconee, GA	
Atlanta, GA	.9587
Barrow, GA	
Butts, GA	
Cherokee, GA	
Clayton, GA	
Cobb, GA	
Coweta, GA	
De Kalb, GA	
Douglas, GA	
Fayette, GA	
Forsyth, GA	
Fulton, GA	
Gwinnett, GA	
Henry, GA	
Newton, GA	
Paulding, GA	
Rockdale, GA	
Spalding, GA	
Walton, GA	
Atlantic City, NJ	1.0482
Atlantic, NJ	
Cape May, NJ	
Augusta, GA-SC	.9526
Columbia, GA	
McDuffie, GA	
Richmond, GA	
Aiken, SC	
Aurora-Elgin, IL	1.0928
Kane, IL	
Kendall, IL	
Austin, TX	1.1089
Hays, TX	
Travis, TX	
Williamson, TX	
Bakersfield, CA	1.1964
Kern, CA	
Baltimore, MD	1.1062
Anne Arundel, MD	
Baltimore, MD	
Baltimore City, MD	
Carroll, MD	
Harford, MD	
Howard, MD	
Queen Annes, MD	
Bangor, ME	.9212
Penobscot, ME	
Baton Rouge, LA	.9748
Ascension, LA	
East Baton Rouge, LA	
Livingston, LA	
West Baton Rouge, LA	
Battle Creek, MI	1.0221
Calhoun, MI	
Beaumont-Port Arthur, TX	1.0003
Hardin, TX	
Jefferson, TX	
Orange, TX	
Beaver County, PA	1.0833
Beaver, PA	
Bellingham, WA	1.1381
Whatcom, WA	

TABLE 6.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Benton Harbor, MI	.8841
Berrien, MI	
Bergen-Passaic, NJ	1.0663
Bergen, NJ	
Passaic, NJ	
Billings, MT	1.0145
Yellowstone, MT	
Biloxi-Gulfport, MS	.8422
Hancock, MS	
Harrison, MS	
Binghamton, NY	.9483
Broome, NY	
Tioga, NY	
Birmingham, AL	.9587
Blount, AL	
Jefferson, AL	
St. Clair, AL	
Shelby, AL	
Walker, AL	
Bismarck, ND	.9865
Burleigh, ND	
Morton, ND	
Bloomington, IN	.9821
Monroe, IN	
Bloomington-Normal, IL	.9767
McLean, IL	
Boise City, ID	1.0501
Ada, ID	
Boston-Lawrence-Salem-Lowell-Brockton, MA	1.1468
Essex, MA	
Middlesex, MA	
Norfolk, MA	
Plymouth, MA	
Suffolk, MA	
Boulder-Longmont, CO	1.1236
Boulder, CO	
Bradenton, FL	.9123
Manatee, FL	
Brazoria, TX	.8673
Brazoria, TX	
Bremerton, WA	.9736
Kitsap, WA	
Bridgeport-Stamford-Norwalk-Danbury, CT	1.1753
Fairfield, CT	
Brownsville-Harlingen, TX	.8906
Cameron, TX	
Bryan-College Station, TX	.9494
Brazos, TX	
Buffalo, NY	1.0603
Erie, NY	
Burlington, NC	.7863
Alamance, NC	
Burlington, VT	1.0051
Chittenden, VT	
Grand Isle, VT	
Canton, OH	1.0001
Carroll, OH	
Stark, OH	
Casper, WY	1.0976
Natrona, WY	
Cedar Rapids, IA	1.0094
Linn, IA	
Champaign-Urbana-Rantoul, IL	.9887
Champaign, IL	
Charleston, SC	.8841
Berkeley, SC	
Charleston, SC	
Dorchester, SC	
Charleston, WV	1.0399
Kanawha, WV	
Putnam, WV	
Charlotte-Gastonia-Rock Hill, NC-SC	.8920
Cabarrus, NC	
Gaston, NC	
Lincoln, NC	
Mecklenburg, NC	
Rowan, NC	
Union, NC	
York, SC	
Charlottesville, VA	.9271
Albermarle, VA	
Charlottesville City, VA	
Fluvanna, VA	
Greene, VA	
Chattanooga, TN-GA	.9962
Catoosa, GA	
Dade, GA	
Walker, GA	
Hamilton, TN	
Marion, TN	
Sequatchie, TN	
Cheyenne, WY	.9625
Laramie, WY	
Chicago, IL	1.2253
Cook, IL	
Du Page, IL	
McHenry, IL	
Chico, CA	1.2365
Butte, CA	
Cincinnati, OH-KY-IN	1.0963
Dearborn, IN	
Boone, KY	
Campbell, KY	
Kenton, KY	
Clermont, OH	
Hamilton, OH	
Warren, OH	

TABLE 6.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage Index
Clarksville-Hopkinsville, TN-KY	.8119
Christian, KY	
Montgomery, TN	
Cleveland, OH	1.1473
Cuyahoga, OH	
Geauga, OH	
Lake, OH	
Medina, OH	
Colorado Springs, CO	1.0356
El Paso, CO	
Columbia, MO	1.0935
Boone, MO	
Columbia, SC	.9096
Lexington, SC	
Richland, SC	
Columbus, GA-AL	.7867
Russell, AL	
Chattahoochee, GA	
Muscogee, GA	
Columbus, OH	.9608
Delaware, OH	
Fairfield, OH	
Franklin, OH	
Licking, OH	
Madison, OH	
Pickaway, OH	
Union, OH	
Corpus Christi, TX	.9821
Nueces, TX	
San Patricio, TX	
Cumberland, MD-WV	.8925
Allegeny, MD	
Mineral, WV	
Dallas, TX	1.0649
Collin, TX	
Dallas, TX	
Denton, TX	
Ellis, TX	
Kaufman, TX	
Rockwall, TX	
Danville, VA	.8023
Danville City, VA	
Pittsylvania, VA	
Davenport-Rock Island-Moline, IA-IL	1.0576
Scott, IA	
Henry, IL	
Rock Island, IL	
Dayton-Springfield, OH	1.0853
Clark, OH	
Greene, OH	
Miami, OH	
Montgomery, OH	
Daytona Beach, FL	.9068
Volusia, FL	
Decatur, IL	.9516
Macon, IL	
Denver, CO	1.2763
Adams, CO	
Arapahoe, CO	
Denver, CO	
Douglas, CO	
Jefferson, CO	
Des Moines, IA	1.0473
Dallas, IA	
Polk, IA	
Warren, IA	
Detroit, MI	1.1633
Lapeer, MI	
Livingston, MI	
Macomb, MI	
Monroe, MI	
Oakland, MI	
St. Clair, MI	
Wayne, MI	
Dothan, AL	.8391
Dale, AL	
Houston, AL	
Dubuque, IA	1.0507
Dubuque, IA	
Duluth, MN-WI	.9852
St. Louis, MN	
Douglas, WI	
Eau Claire, WI	.9423
Chippewa, WI	
Eau Claire, WI	
El Paso, TX	.9362
El Paso, TX	
Elkhart-Goshen, IN	.9574
Elkhart, IN	
Elmira, NY	.9664
Chemung, NY	
Enid, OK	.9550
Garfield, OK	
Erie, PA	.9912
Erie, PA	
Eugene-Springfield, OR	1.1075
Lane, OR	
Evansville, IN-KY	1.0136
Posey, IN	
Vanderburgh, IN	
Warrick, IN	
Henderson, KY	
Fargo-Moorhead, ND-MN	1.0560
Clay, MN	
Cass, ND	
Fayetteville, NC	.8264
Cumberland, NC	
Fayetteville-Springdale, AR	.8014
Washington, AR	
Flint, MI	1.1953

TABLE 6.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage Index
Genesee, MI	
Shiawassee, MI	
Florence, AL	.7827
Colbert, AL	
Lauderdale, AL	
Florence, SC	.7625
Florence, SC	
Fort Collins-Loveland, CO	1.0761
Larimor, CO	
Fort Lauderdale-Hollywood-Pompano Beach, FL	1.1160
Broward, FL	
Fort Myers-Cape Coral, FL	.9458
Lee, FL	
Fort Pierce, FL	1.0134
Martin, FL	
St. Lucie, FL	
Fort Smith, AR-OK	.9170
Crawford, AR	
Sebastian, AR	
Sequoyah, OK	
Fort Walton Beach, FL	.8682
Okaloosa, FL	
Fort Wayne, IN	.9492
Allen, IN	
De Kalb, IN	
Whitley, IN	
Fort Worth-Arlington, TX	.9920
Johnson, TX	
Parker, TX	
Tarrant, TX	
Fresno, CA	1.1399
Fresno, CA	
Gadsden, AL	.8706
Etowah, AL	
Gainesville, FL	.9566
Alachua, FL	
Bradford, FL	
Galveston-Texas City, TX	1.1322
Galveston, TX	
Gary-Hammond, IN	1.0892
Lake, IN	
Porter, IN	
Glens Falls, NY	.9531
Warren, NY	
Washington, NY	
Grand Forks, ND	.9793
Grand Forks, ND	
Grand Rapids, MI	1.0579
Kent, MI	
Ottawa, MI	
Great Falls, MT	1.0637
Cascade, MT	
Greeley, CO	1.0678
Weld, CO	
Green Bay, WI	1.0245
Brown, WI	
Greensboro-Winston-Salem-High Point, NC	.9314
Davidson, NC	
Davie, NC	
Forsyth, NC	
Guilford, NC	
Randolph, NC	
Stokes, NC	
Yadkin, NC	
Greenville-Spartanburg, SC	.9057
Greenville, SC	
Pickens, SC	
Spartanburg, SC	
Hagerstown, MD	.9510
Washington, MD	
Hamilton-Middletown, OH	1.0133
Butler, OH	
Harrisburg-Lebanon-Carlisle, PA	.9790
Cumberland, PA	
Dauphin, PA	
Lebanon, PA	
Perry, PA	
Hartford-Middletown-New Britain-Bristol, CT	1.1371
Hartford, CT	
Litchfield, CT	
Middlesex, CT	
Tolland, CT	
Hickory, NC	.8911
Alexander, NC	
Burke, NC	
Catawba, NC	
Honolulu, HI	1.1927
Honolulu, HI	
Houma-Thibodaux, LA	.9158
Lafourche, LA	
Terrebonne, LA	
Houston, TX	1.0584
Fort Bend, TX	
Harris, TX	
Liberty, TX	
Montgomery, TX	
Waller, TX	
Huntington-Ashland, WV-KY-OH	.9434
Boyd, KY	
Carter, KY	
Greenup, KY	
Lawrence, OH	
Cabell, WV	
Wayne, WV	
Huntsville, AL	.8593
Madison, AL	

TABLE 6.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage Index
Indianapolis, IN	1.0510
Boone, IN	
Hamilton, IN	
Hancock, IN	
Hendricks, IN	
Johnson, IN	
Marion, IN	
Morgan, IN	
Shelby, IN	
Iowa City, IA	1.2981
Johnson, IA	
Jackson, MI	1.0125
Jackson, MI	
Jackson, MS	.9281
Hinds, MS	
Madison, MS	
Rankin, MS	
Jackson, TN	.7853
Madison, TN	
Jacksonville, FL	.9406
Clay, FL	
Duval, FL	
Nassau, FL	
St. Johns, FL	
Jacksonville, NC	.7903
Onslow, NC	
Janesville-Beloit, WI	.9347
Rock, WI	
Jersey City, NJ	1.1020
Hudson, NJ	
Johnson City-Kingsport-Bristol, TN-VA	.8549
Carter, TN	
Hawkins, TN	
Sullivan, TN	
Unicoi, TN	
Washington, TN	
Bristol City, VA	
Scott, VA	
Washington, VA	
Johnstown, PA	.9451
Cambria, PA	
Somerset, PA	
Joliet, IL	1.1164
Grundy, IL	
Will, IL	
Joplin, MO	.9130
Jasper, MO	
Newton, MO	
Kalamazoo, MI	1.2244
Kalamazoo, MI	
Kankakee, IL	.9435
Kankakee, IL	
Kansas City, KS-MO	1.0576
Johnson, KS	
Leavenworth, KS	
Miami, KS	
Wyandotte, KS	
Cass, MO	
Clay, MO	
Jackson, MO	
Lafayette, MO	
Platte, MO	
Ray, MO	
Kenosha, WI	1.0789
Kenosha, WI	
Killeen-Temple, TX	.8779
Bell, TX	
Coryell, TX	
Knoxville, TN	.8925
Anderson, TN	
Blount, TN	
Grainger, TN	
Jefferson, TN	
Knox, TN	
Sevier, TN	
Union, TN	
Kokomo, IN	.9792
Howard, IN	
Tipton, IN	
LaCrosse, WI	1.0067
LaCrosse, WI	
Lafayette, LA	1.0034
Lafayette, LA	
St. Martin, LA	
Lafayette, IN	.9091
Tippecanoe, IN	
Lake Charles, LA	.9957
Calcasieu, LA	
Lake County, IL	1.1545
Lake, IL	
Lakeland-Winter Haven, FL	.8781
Polk, FL	
Lancaster, PA	1.0314
Lancaster, PA	
Lansing-East Lansing, MI	1.0684
Clinton, MI	
Eaton, MI	
Ingham, MI	
Laredo, TX	.8099
Webb, TX	
Las Cruces, NM	.8698
Dona Ana, NM	
Las Vegas, NV	1.1165
Clark, NV	
Lawrence, KS	1.0099
Douglas, KS	
Lawton, OK	.9394
Comanche, OK	
Lewiston-Auburn, ME	.9351
Androscoggin, ME	

TABLE 6.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Lexington-Fayette, KY	.9795
Bourbon, KY	
Clark, KY	
Fayette, KY	
Jessamine, KY	
Scott, KY	
Woodford, KY	
Lima, OH	.9788
Allen, OH	
Auglaize, OH	
Lincoln, NE	.9634
Lancaster, NE	
Little Rock-North Little Rock, AR	1.1047
Faulkner, AR	
Lonoke, AR	
Pulaski, AR	
Saline, AR	
Longview-Marshall, TX	.8344
Gregg, TX	
Harrison, TX	
Lorain-Elyria, OH	1.0198
Lorain, OH	
Los Angeles-Long Beach, CA	1.3185
Los Angeles, CA	
Louisville, KY-IN	1.0002
Clark, IN	
Floyd, IN	
Harrison, IN	
Bullitt, KY	
Jefferson, KY	
Oldham, KY	
Shelby, KY	
Lubbock, TX	1.0048
Lubbock, TX	
Lynchburg, VA	.9142
Amherst, VA	
Campbell, VA	
Lynchburg City, VA	
Macon-Warner Robins, GA	.9251
Bibb, GA	
Houston, GA	
Jones, GA	
Peach, GA	
Madison, WI	1.0815
Dane, WI	
Manchester-Nashua, NH	.9502
Hillsboro, NH	
Merrimack, NH	
Mansfield, OH	.9841
Richland, OH	
McAllen-Edinburg-Mission, TX	.8041
Hidalgo, TX	
Medford, OR	1.0274
Jackson, OR	
Melbourne-Titusville, FL	.9304
Brevard, FL	
Memphis, TN-AR-MS	1.0411
Crittenden, AR	
De Soto, MS	
Shelby, TN	
Tipton, TN	
Merced, CA	1.2038
Merced, CA	
Miami-Hialeah, FL	1.0618
Dade, FL	
Middlesex-Somerset-Hunterdon, NJ	1.0267
Hunterdon, NJ	
Middlesex, NJ	
Somerset, NJ	
Midland, TX	1.1215
Midland, TX	
Milwaukee, WI	1.1321
Milwaukee, WI	
Ozaukee, WI,	
Washington, WI	
Waukesha, WI	
Minneapolis-St. Paul, MN-WI	1.1879
Anoka, MN	
Carver, MN	
Chisago, MN	
Dakota, MN	
Hennepin, MN	
Isanti, MN	
Ramsey, MN	
Scott, MN	
Washington, MN	
Wright, MN	
St. Croix, WI	
Mobile, AL	.8857
Baldwin, AL	
Mobile, AL	
Modesto, CA	1.2007
Stanislaus, CA	
Monmouth-Ocean, NJ	.9846
Monmouth, NJ	
Ocean, NJ	
Monroe, LA	.9269
Ouachita, LA	
Montgomery, AL	.8806
Autauga, AL	
Elmore, AL	
Montgomery, AL	
Muncie, IN	.9686
Delaware, IN	
Muskegon, MI	.9833
Muskegon, MI	
Naples, FL	1.0366
Collier, FL	

TABLE 6.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage Index
Nashville, TN	.9340
Cheatham, TN	
Davidson, TN	
Dickson, TN	
Robertson, TN	
Rutherford, TN	
Sumner, TN	
Williamson, TN	
Wilson, TN	
Nassau-Suffolk, NY	1.3293
Nassau, NY	
Suffolk, NY	
New Bedford-Fall River-Attleboro, MA	.9718
Bristol, MA	
New Haven-West Haven-Waterbury-Meriden, CT	1.1187
New Haven, CT	
New London-Norwich, CT	1.1015
New London, CT	
New Orleans, LA	.9270
Jefferson, LA	
Orleans, LA	
St. Bernard, LA	
St. Charles, LA	
St. John the Baptist, LA	
St. Tammany, LA	
New York, NY	1.3700
Bronx, NY	
Kings, NY	
New York City, NY	
Putnam, NY	
Queens, NY	
Richmond, NY	
Rockland, NY	
Westchester, NY	
Newark, NJ	1.1314
Essex, NJ	
Morris, NJ	
Sussex, NJ	
Union, NJ	
Niagara Falls, NY	.8892
Niagara, NY	
Norfolk-Virginia Beach-Newport News, VA	.9615
Chesapeake City, VA	
Gloucester, VA	
Hampton City, VA	
James City Co., VA	
Newport News City, VA	
Norfolk City, VA	
Poquoson, VA	
Portsmouth City, VA	
Suffolk City, VA	
Virginia Beach City, VA	
Williamsburg City, VA	
York, VA	
Oakland, CA	1.4775
Alameda, CA	
Contra Costa, CA	
Ocala, FL	.8668
Marion, FL	
Odessa, TX	.9543
Ector, TX	
Oklahoma City, OK	1.0844
Canadian, OK	
Cleveland, OK	
Logan, OK	
McClain, OK	
Oklahoma, OK	
Pottawatomie, OK	
Olympia, WA	1.0702
Thurston, WA	
Omaha, NE-IA	1.0426
Pottawattamie, IA	
Douglas, NE	
Sarpy, NE	
Washington, NE	
Orange County, NY	.9225
Orange, NY	
Orlando, FL	1.0108
Orange, FL	
Osceola, FL	
Seminole, FL	
Owensboro, KY	.8178
Daviess, KY	
Oxnard-Ventura, CA	1.2749
Ventura, CA	
Panama City, FL	.8288
Bay, FL	
Parkersburg-Marietta, WV-OH	.9049
Washington, OH	
Wood, WV	
Pascagoula, MS	.9601
Jackson, MS	
Pensacola, FL	.8673
Escambia, FL	
Santa Rosa, FL	
Peoria, IL	1.0501
Peoria, IL	
Tazewell, IL	
Woodford, IL	
Philadelphia, PA-NJ	1.1690
Burlington, NJ	
Camden, NJ	
Gloucester, NJ	
Bucks, PA	
Chester, PA	
Delaware, PA	
Montgomery, PA	
Philadelphia, PA	
Phoenix, AZ	1.0718
Maricopa, AZ	

TABLE 6.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Pine Bluff, AR	.7946
Jefferson, AR	
Pittsburgh, PA	1.0924
Allegheny, PA	
Fayette, PA	
Washington, PA	
Westmoreland, PA	
Pittsfield, MA	1.0165
Berkshire, MA	
Portland, ME	.9602
Cumberland, ME	
Sagadahoc, ME	
York, ME	
Portland, OR	1.1979
Clackamas, OR	
Multnomah, OR	
Washington, OR	
Yamhill, OR	
Portsmouth-Dover-Rochester, NH	.9299
Rockingham, NH	
Strafford, NH	
Poughkeepsie, NY	.9973
Dutchess, NY	
Providence-Pawtucket-Woonsocket, RI	1.0419
Bristol, RI	
Kent, RI	
Newport, RI	
Providence, RI	
Statewide, RI	
Washington, RI	
Provo-Orem, UT	.9780
Utah, UT	
Pueblo, CO	1.1122
Pueblo, CO	
Racine, WI	.9923
Racine, WI	
Raleigh-Durham, NC	.9643
Durham, NC	
Franklin, NC	
Orange, NC	
Wake, NC	
Rapid City, SD	.9547
Pennington, SD	
Reading, PA	1.0167
Berks, PA	
Redding, CA	1.2298
Shasta, CA	
Reno, NV	1.1745
Washoe, NV	
Richland-Kennewick, WA	1.0175
Benton, WA	
Franklin, WA	
Richmond-Petersburg, VA	.9489
Charles City Co., VA	
Chesterfield, VA	
Colonial Heights City, VA	
Dinwiddie, VA	
Goochland, VA	
Hanover, VA	
Henrico, VA	
Hopewell City, VA	
New Kent, VA	
Petersburg City, VA	
Powhatan, VA	
Prince George, VA	
Richmond City, VA	
Riverside-San Bernardino, CA	1.2418
Riverside, CA	
San Bernardino, CA	
Roanoke, VA	.8925
Botetourt, VA	
Roanoke, VA	
Roanoke City, VA	
Salem City, VA	
Rochester, MN	1.0203
Olmsted, MN	
Rochester, NY	1.0145
Livingston, NY	
Monroe, NY	
Ontario, NY	
Orleans, NY	
Wayne, NY	
Rockford, IL	1.1264
Boone, IL	
Winnebago, IL	
Sacramento, CA	1.2666
Eldorado, CA	
Placer, CA	
Sacramento, CA	
Yolo, CA	
Saginaw-Bay City-Midland, MI	1.0983
Bay, MI	
Midland, MI	
Saginaw, MI	
St. Cloud, MN	.9938
Benton, MN	
Sherburne, MN	
Stearns, MN	
St. Joseph, MO	.9412
Buchanan, MO	
St. Louis, MO-IL	1.0741
Clinton, IL	
Jersey, IL	
Madison, IL	
Monroe, IL	
St. Clair, IL	
Franklin, MO	
Jefferson, MO	
St. Charles, MO	
St. Louis, MO	
St. Louis City, MO	

TABLE 6.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage Index
Salem, OR	1.0884
Marion, OR	
Polk, OR	
Salinas-Seaside-Monterey, CA	1.2472
Monterey, CA	
Salt Lake City-Ogden, UT	1.0272
Davis, UT	
Salt Lake, UT	
Weber, UT	
San Angelo, TX	.8650
Tom Green, TX	
San Antonio, TX	.8872
Bexar, TX	
Comal, TX	
Guadalupe, TX	
San Diego, CA	1.3000
San Diego, CA	
San Francisco, CA	1.6387
Marin, CA	
San Francisco, CA	
San Mateo, CA	
San Jose, CA	1.4689
Santa Clara, CA	
Santa Barbara-Santa Maria-Lompoc, CA	1.1728
Santa Barbara, CA	
Santa Cruz, CA	1.2334
Santa Cruz, CA	
Santa Fe, NM	.9732
Los Alamos, NM	
Santa Fe, NM	
Santa Rosa-Petaluma, CA	1.3009
Sonoma, CA	
Sarasota, FL	.9563
Sarasota, FL	
Savannah, GA	.8847
Chatham, GA	
Effingham, GA	
Scranton-Wilkes Barre, PA	.9903
Columbia, PA	
Lackawanna, PA	
Luzerne, PA	
Monroe, PA	
Wyoming, PA	
Seattle, WA	1.1487
King, WA	
Snohomish, WA	
Sharon, PA	.9680
Mercer, PA	
Sheboygan, WI	.9807
Sheboygan, WI	
Sherman-Denison, TX	.8551
Grayson, TX	
Shreveport, LA	.9537
Bossier, LA	
Caddo, LA	
Sioux City, IA-NE	.9983
Woodbury, IA	
Dakota, NE	
Sioux Falls, SD	1.0130
Minnehaha, SD	
South Bend-Mishawaka, IN	1.0007
St. Joseph, IN	
Spokane, WA	1.1467
Spokane, WA	
Springfield, IL	1.0580
Menard, IL	
Sangamon, IL	
Springfield, MO	.9795
Christian, MO	
Greene, MO	
Springfield, MA	.9981
Hampden, MA	
Hampshire, MA	
State College, PA	1.0686
Centre, PA	
Steubenville-Weirton, OH-WV	.9579
Jefferson, OH	
Brooke, WV	
Hancock, WV	
Stockton, CA	1.2770
San Joaquin, CA	
Syracuse, NY	1.0220
Madison, NY	
Onondaga, NY	
Oswego, NY	
Tacoma, WA	1.0965
Pierce, WA	
Tallahassee, FL	.9434
Gadsden, FL	
Leon, FL	
Tampa-St. Petersburg-Clearwater, FL	.9753
Hernando, FL	
Hillsborough, FL	
Pasco, FL	
Pinellas, FL	
Terre Haute, IN	.8389
Clay, IN	
Vigo, IN	
Texarkana, TX-Texarkana, AR	.8582
Miller, AR	
Bowie, TX	
Toledo, OH	1.2170
Fulton, OH	
Lucas, OH	
Wood, OH	

TABLE 6.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage Index
Topeka, KS	1.0548
Shawnee, KS	
Trenton, NJ	1.0235
Mercer, NJ	
Tucson, AZ	1.0010
Pima, AZ	
Tulsa, OK	1.0051
Creeks, OK	
Osage, OK	
Rogers, OK	
Tulsa, OK	
Wagoner, OK	
Tuscaloosa, AL	1.0092
Tuscaloosa, AL	
Tyler, TX	.9956
Smith, TX	
Utica-Rome, NY	.8770
Herkimer, NY	
Oneida, NY	
Vallejo-Fairfield-Napa, CA	1.3291
Napa, CA	
Solano, CA	
Vancouver, WA	1.1567
Clark, WA	
Victoria, TX	.8140
Victoria, TX	
Vineland-Millville-Bridgeton, NJ	.9851
Cumberland, NJ	
Visalia-Tulare-Porterville, CA	1.0559
Tulare, CA	
Waco, TX	.9045
McLennan, TX	
Washington, D.C.-MD-VA	1.1870
District of Columbia, DC	
Calvert, MD	
Charles, MD	
Frederick, MD	
Montgomery, MD	
Prince Georges, MD	
Alexandria City, VA	
Arlington, VA	
Fairfax, VA	
Fairfax City, VA	
Falls Church City, VA	
Loudoun, VA	
Manassas City, VA	
Manassas Park City, VA	
Prince William, VA	
Stafford, VA	
Waterloo-Cedar Falls, IA	.9914
Black Hawk, IA	
Bremer, IA	
Wausau, WI	.9793
Marathon, WI	
West Palm Beach-Boca Raton-Delray Beach, FL	.9894
Palm Beach, FL	
Wheeling, WV-OH	.9694
Belmont, OH	
Marshall, WV	
Ohio, WV	
Wichita, KS	1.1498
Butler, KS	
Sedgwick, KS	
Wichita Falls, TX	.8706
Wichita, TX	
Williamsport, PA	.8977
Lycoming, PA	
Wilmington, DE-NJ-MD	1.0504
New Castle, DE	
Cecil, MD	
Salem, NJ	
Wilmington, NC	.9515
New Hanover, NC	
Worcester-Fitchburg-Leominster, MA	1.0014
Worcester, MA	
Yakima, WA	1.0307
Yakima, WA	
York, PA	.9775
Adams, PA	
York, PA	
Youngstown-Warren, OH	1.0397
Mahoning, OH	
Trumbull, OH	
Yuba City, CA	1.0378
Sutter, CA	
Yuba, CA	

TABLE 7.—WAGE INDEX FOR RURAL AREAS

Nonurban area	Wage index
Alabama	.7407
Alaska	1.4870
Arizona	.9249
Arkansas	.7642
California	1.1295
Colorado	.9252
Connecticut	1.0377
Delaware	.8577
Florida	.8745
Georgia	.7718
Hawaii	1.0077
Idaho	.9058
Illinois	.8847
Indiana	.8617
Iowa	.8650
Kansas	.8414
Kentucky	.7973
Louisiana	.8537
Maine	.8586
Maryland	.8704
Massachusetts	1.0465
Michigan	.9474
Minnesota	.8719
Mississippi	.7644
Missouri	.8260
Montana	.9081
Nebraska	.8244
Nevada	1.0714
New Hampshire	.9179
New Jersey*	
New Mexico	.9140
New York	.8662
North Carolina	.8066
North Dakota	.8989
Ohio	.9028
Oklahoma	.8395
Oregon	1.0697
Pennsylvania	.9352
Rhode Island*	
South Carolina	.7765
South Dakota	.8198
Tennessee	.7672
Texas	.8116
Utah	.9430
Vermont	.8818
Virginia	.8129
Washington	1.0192
West Virginia	.8746
Wisconsin	.8924
Wyoming	.9668

*All counties within the State are classified urban.

Special treatment of certain facilities

Certain exceptions and adjustments to the prospective payment rates are provided as follows:

Sole community hospitals

The Secretary is required to provide a special payment for sole community hospitals (SCHs), which are hospitals that (by reason of factors such as isolated location, weather conditions, travel conditions, or absence of other hospitals) are the sole source of inpatient services reasonably available in a geographic area. SCHs are paid on the same basis as all other hospitals are paid in the first year of the transition period: 25 percent of the payment is based on regional DRG rates and 75 percent on each hospital's cost base. During the transition period, SCH may also receive an additional payment amount if, due to circumstances beyond their control, they experience a decrease of more than 5 percent in their number of inpatient cases.

Public Law 99-509 provided that this adjustment would be extended up to October 1, 1986. For cost reporting periods beginning on or after October 1, 1983, and before October 1, 1989, Public Law 99-272 provided that SCHs experiencing increases in operating costs due to the addition of new inpatient facilities or services will receive a payment adjustment for such costs. As of June 1986, 362 hospitals had been classified as sole community providers.

Cancer hospitals

The Secretary is authorized to provide for exceptions and adjustments to the prospective payment amounts appropriate for hospitals involved extensively in treatment for and research on cancer. The regulations define a cancer hospital as one which: (1) was recognized by the National Cancer Institute as a comprehensive cancer center or a clinical cancer research center as of April 20, 1983, (2) demonstrates that the entire facility is organized primarily for treatment of and research on cancer, and (3) has a patient population such that at least 50 percent of the hospital's total discharges have a principal diagnosis that reflects a finding of neoplastic disease. Cancer hospitals meeting these criteria may elect to be paid on a reasonable cost basis, subject to TEFRA limits. As of June 1986, six hospitals had been designated as cancer hospitals.

Referral centers

The Secretary is authorized to provide exceptions and adjustments appropriate for regional and national referral centers. These centers are defined as:

(1) rural hospitals having 500 or more beds;

(2) hospitals having at least 50 percent of their Medicare patients referred from other hospitals or from physicians not on the hospital's staff, at least 60 percent of their Medicare patients residing more than 25 miles from the hospital, and at least 60 percent of the services furnished to Medicare beneficiaries are furnished to those who live 25 miles or more from the hospital; or

(3) rural hospitals meeting the following criteria for hospital cost reporting periods beginning on or after October 1, 1985.

(a) a case mix index equal to or greater than the median case mix for urban hospitals located in the same census region or the Nation (other than hospitals with approved teaching programs);

(b) a minimum number of discharges of either 5,000, the national discharge criterion (or 3,000 in the case of osteopathic hospitals), or the median number of discharges in urban hospitals for the region in which the hospital is located; and

(c) at least one of the following three criteria: more than 50 percent of the hospital's medical staff are specialists, at least 60 percent of discharges are for inpatients who reside more than 25 miles from the hospital, or at least 40 percent of inpatients treated at the hospital have been referred either from physicians not on the hospital's staff or from other hospitals.

Referral centers will be paid prospective payments based on the applicable urban payment rates rather than the rural rates, as adjusted by the hospital's area wage index.

Under the regulations, once a hospital has achieved referral center status, it is paid at the applicable urban rate for a 3-year period. Public Law 99-509 permitted hospitals designated as regional referral centers, as of the date of enactment, to continue their designation for 3 additional years. As of June 1986, 167 hospitals were qualified as referral centers.

Hospitals excluded from the prospective payment system

The following hospitals are by law excluded from the prospective payment system and are paid on the basis of reasonable costs, subject to the TEFRA rate of increase limits: psychiatric hospitals, rehabilitation hospitals, psychiatric or rehabilitation units which are distinct parts of a hospital, alcohol and drug abuse hospitals and such distinct units of hospitals (for cost reporting periods beginning before October 1, 1987), children's hospitals (with patients averaging under 18 years of age), long-term hospitals (with an average inpatient length of stay greater than 25 days), and hospitals outside the 50 States and the District of Columbia. Public Law 99-509 provided that hospitals located in Puerto Rico will be included in PPS, specially adjusted for Puerto Rico, effective with discharges occurring on or after October 1, 1987.

Hospitals reimbursed under approved State cost control systems are also excluded from the prospective rates. In addition, there are special cases where the prospective payment system is not applied, such as for emergency services provided to Medicare beneficiaries in hospitals not participating in Medicare, Veterans' Administration hospital services provided to Medicare beneficiaries, and hospital services provided to Medicare beneficiaries who belong to health maintenance organizations or competitive medical plans (such organizations may choose to have the Secretary pay hospitals directly for such services or may negotiate their own rates with hospitals).

Administrative and judicial review

Administrative and judicial appeals are allowed under procedures and authorities already established under the Medicare program. However, the law precludes administrative and judicial review of: (1) the "budget neutrality" adjustment (see above), and (2) the DRG payment amounts, including the establishment of DRG's, the methodology for classifying discharges within DRG's, and the DRG weighting factors.

Review activities

Public Law 97-248, the Tax Equity and Fiscal Responsibility Act of 1982 (known as TEFRA) replaced the existing Professional Standards Review Organization (PSRO) program with the utilization and quality control peer review program. The Secretary of the Department of Health and Human Services was required to enter into performance-based contracts with physician-sponsored or physician-access organizations known as Peer Review Organizations (PRO's) by November 15, 1984. As a condition of receiving payments under the prospective payment system, hospitals are required to enter an agreement with a PRO under which the PRO will review the validity of diagnostic and procedural information provided by the hospitals; the completeness, adequacy and quality of care provided; and the appropriateness of admissions patterns, discharges, lengths of stay, transfers, and services furnished in outlier cases.

Nonphysician services furnished to hospital inpatients

Prior to Public Law 98-21, payments for nonphysician services (in such areas as radiology, laboratory, physical therapy, prosthetics) provided to Medicare beneficiaries who were hospital inpatients were made either (1) to the hospital under part A of Medicare on a reasonable cost basis or (2) to an outside supplier of the service under part B of Medicare on the basis of reasonable charges. The practice of billing under part B for services provided to hospital inpatients is known as the "unbundling" of part A services.

Public Law 98-21 provided that, effective October 1, 1983, for all hospitals participating in the Medicare program (including those under prospective payment, excluded hospitals, and those paid under State cost control systems), all nonphysician services provided to hospital inpatients will be paid only as hospital services under the part A program. The Secretary has authority to waive this requirement during the transition period to allow billing under part B for hospitals that had such extensive billings under part B prior to October 1, 1982, that compliance with the new requirement would threaten the stability of patient care (commonly referred to as 602k hospitals). As of December 1985, there were four 602k hospitals.

January 3, 1984 regulations provided for an exception to the "unbundling" requirement for the inpatient hospital services of nonphysician anesthetists, such as certified registered nurse anesthetists (CRNAs). For hospital cost reporting periods beginning before October 1, 1986, if a physician (usually an anesthesiologist) em-

ployed nonphysician anesthetists on the last day of the hospital's most recent cost reporting period ending before September 1, 1983, then the physician could continue to bill the Medicare program for the nonphysician anesthetists' services under part B of Medicare. If the physician chose to continue such part B billing during the transition period, the hospital may not add the costs of such services to its base period costs for purposes of determining the hospital-specific portion of its DRG payment rates.

Public Law 98-369 (DEFRA) provided that, effective with cost reporting periods beginning October 1, 1984, and before October 1, 1987, the costs of anesthesia services provided by qualified nonphysician anesthetists (CRNAs and anesthesiology assistants) employed by hospitals or obtained under arrangements are removed from prospective payment, to be reimbursed on the basis of reasonable cost.

Public Law 99-509 extended the existing payment arrangements for services of CRNAs employed by hospitals for 1 additional year. In addition, it provided for direct reimbursement of CRNAs for services provided on or after October 1, 1988 (for additional detail, see "Anesthesia services of hospital-employed nonphysician anesthetists," above).

State cost control systems

Section 1886(c) of the Social Security Act (as added by TEFRA) gave the HHS Secretary discretion to reimburse hospitals in a State according to the State's hospital reimbursement control system rather than according to Medicare's reimbursement methods if the State requests this change and if HHS determines that the State system meets certain requirements. Currently two States have waivers to operate their own systems: Maryland and New Jersey.

Public Laws 98-21 and 98-369 added several more requirements for State systems. According to final regulations published by HHS on April 24, 1986 (51 F.R. 15481), implementing these legislative changes, HHS has the discretion to allow Medicare hospital reimbursement to be made in accordance with a State reimbursement control system if the chief executive officer of the State requests approval of the State system, and provided that the State system:

(a) Apply to substantially all non-federal acute care hospitals in the State.

(b) Apply to at least 75 percent of all inpatient revenues or expenses for the State.

(c) Provide assurances that payers, hospital employees and patients in the State will be treated equitably under its system.

(d) Provide assurances that its system will not result in greater Medicare expenditures over 36-month periods.

(e) Not preclude health maintenance organizations (HMOs) or competitive medical plans (CMPs) from negotiating directly with hospitals concerning payment for inpatient services.

(f) Limit hospital charges to Medicare beneficiaries to deductibles, coinsurance, and services for which the beneficiary would not be entitled to have payment made under Medicare Part A; and prohibit payment under Part B of Medicare for nonphysi-

cian services provided to hospital inpatients unless this prohibition is waived.

HHS must approve any State system which meets the above six requirements and also the following requirements that the State system must:

(g) Be operated directly by the State or an entity designated by State law.

(h) Use a payment methodology to be applied prospectively.

(i) Provide for hospital reports, as required by the Secretary.

(j) Provide satisfactory assurances that it will not result in admission practices that will reduce treatment to uninsured, low income, high cost, or emergency patients.

(k) Not materially reduce payments without 60 days notice to the Secretary and to affected hospitals.

(l) Provide satisfactory assurance that, in developing its system, the State has consulted with local officials concerning the impact on public hospitals.

Special provisions apply to States that have existing demonstration projects approved by HCFA under section 402 of the Social Security Amendments of 1967 or section 222(a) of the Social Security Amendment of 1972 for the operation of State reimbursement control systems. HHS approval of a State's application to continue the operation of a system upon expiration of the demonstration project is mandatory if, and for so long as, the system meets the minimum requirements described in items (a) through (f) above.

Prospective Payment Assessment Commission

Public Law 98-21 required the Director of the Congressional Office of Technology Assessment (OTA) to appoint by April 1, 1984, a commission of 15 independent experts, known as the Prospective Payment Assessment Commission (ProPAC). Public Law 99-272 added two members to ProPAC, bringing the total 17 members.

ProPAC is required to review the percentage increase used to update the DRG payment rates for fiscal years 1984 and 1985. It is required to make recommendations, in a report due by April 1, to the Secretary on the appropriate percentage change beginning with fiscal year 1986. In addition, the Commission must: (1) consult with and make recommendations to the Secretary on the need for adjustments to the DRG classifications, the methodology for classifying specific hospital discharges within the DRGs, and weighting factors for the DRGs; [2] and (2) report to Congress its evaluation of any adjustments which the Secretary makes.[3]

Each year, ProPAC also submits a report to Congress which provides background information on trends in health care delivery and financing, including the impact of the prospective payment system on providers and beneficiaries. The executive summary of the most recent report, titled "Medicare Prospective Payment and the American Health Care System, Report to the Congress, February 1987," follows:

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[2] See Prospective Payment Assessment Commission. Report and Recommendation to the Secretary, U.S. Department of Health and Human Services, April 1, 1986.

[3] See Prospective Payment Assessment Commission, 1987 Adjustments to the Medicare Prospective Payment System. Report to Congress, November 1986.

Executive Summary

In this second report to the Congress, the Prospective Payment Assessment Commission (ProPAC) presents information on a wide range of changes in health care delivery and financing in the U.S. Conclusions about cause and effect are drawn where the evidence will support them. In many instances, however, the information is presented descriptively because definitive conclusions are not possible.

This summary presents highlights from ProPAC's analysis of the effects of PPS, with emphasis on the distributive consequences of PPS for hospitals and overall financial effects on beneficiaries. Readers should refer to the report and tables for more detailed statistics and explanations. ProPAC hopes that the report will serve as a reference document both for the range of issues that connect PPS with changes in health care delivery and financing, and for the statistics that comprise the evidence of these changes.

HEALTH EXPENDITURES

In 1984 and 1985, total health care expenditures for the nation continued to increase at a faster rate than general inflation. As a consequence, total health care spending increased from 10.3 percent of gross national product in 1984 to 10.7 percent in 1985. The components of health care spending increased at different rates, however. In the case of Medicare spending, for example, increases in expenditures for ambulatory care have exceeded inpatient hospital and skilled nursing home spending increases for several years.

Controlling for inflation, the growth of Medicare hospital inpatient expenditures per enrollee has slowed since 1983, the year that PPS was initiated. Nevertheless, Medicare payments per hospital discharge (which include some payments that are part of PPS and some that are not) increased by nearly 12 percent from 1984 to 1985, still substantially above the rate of inflation. These data indicate that Medicare payments per discharge have kept pace with increasing costs, at least in the early PPS period.

Substantial substitution of outpatient services for inpatient services, part of which may be attributed to the incentives of PPS, has taken place during the early 1980s. Data on non-hospital Medicare spending reveal that nursing home spending, as a proportion of total spending, has been constant in recent years. In contrast, home health services have continued to gain an increasing share of the Medicare dollar throughout the 1980s. This has occurred despite the application of increasingly stringent requirements for coverage by Medicare's fiscal intermediaries.

USE AND PROVISION OF HOSPITAL SERVICES AND HOSPITAL FINANCIAL CONDITION

The rate of decline in hospital admissions accelerated after the introduction of PPS, with the largest decline taking place in 1984 and 1985. During the first eight months of 1986, the decline continued but at a slower rate. A similar trend was evident for changes in hospital length of stay, except that the rate of decline began to slow in 1985.

In the case of Medicare patients, all of this decline was in routine days, as special care days actually increased slightly. Moreover, all of the decline was in nonsurgical cases; length of stay for surgical cases increased slightly in 1985. Patients continue to enter the hospital closer to the operation day, on average, but are staying longer post-operatively. This is consistent with the view that less complicated surgeries have been moved to outpatient settings.

Reductions in lengths of stay for both Medicare and non-Medicare patients ceased during the first eight months of 1986. It is hard

to say whether this represents an end to the declining trend of several years. It is possible that the the movement of pre-admission and post-discharge services and simpler cases out of the hospital has reached its limit. Further, physicians may have found it difficult or undesirable to continue to hold down length of stay.

Outpatient visits continue to increase dramatically. The substantial increase from 1984 to 1985 of 4.5 percent accelerated sharply to 8.1 percent during the first eight months of 1986.

Hospital total and inpatient expenses per admission grew faster in the first eight months of 1986 than in 1985. These growth rates are still lower than pre-PPS growth rates. Total hospital employment, as measured by full-time equivalent (FTE) employees, increased during the first eight months of 1986 while total inpatient FTEs decreased. This is further indication of the shift of services from the inpatient to the outpatient setting.

Hospital capital costs, which continue to be excluded from PPS, have been increasing at a much higher rate than operating costs. Recently, however, the rate of growth in capital costs has declined. Nevertheless, 1985 saw an enormous increase (over 200 percent) in the amount of tax-exempt hospital capital financings, which decreased abruptly in 1986. General tax reform and the uncertain future of tax-exempt financing were important influences on the latter trend.

Financial ratios, which give indications of the financial health of the hospital industry, show mixed results. Profitability improved in 1985, but data for the first eight months of 1986 show decreasing operating margins. A trend of reduced efficiency in the use of assets continued in 1985, while measures of debt repayment ability continued to show improvement. The ability to meet financial obligations in the near future improved, but the number of days hospitals must wait to receive payment increased. This latter trend may be exacerbated by the elimination of Periodic Interim Payments by Medicare to some hospitals. Additional evidence on hospital profitability based on Medicare data is presented below.

SELECTED DISTRIBUTIONAL EFFECTS OF PPS ON HOSPITALS

ProPAC has been concerned about the distributional consequences of PPS for beneficiaries and hospitals. Distributional considerations have entered into many of the recommendations made by the Commission on hospital payments. The Commission's concerns derive from a belief that the distribution of payments should be equitable and that inequities may ultimately jeopardize beneficiary access to high quality hospital services.

Understanding the distributional consequences of PPS is a first step to determining the likelihood of equity or beneficiary access problems. ProPAC selected five topics from a wide range of potential distributional issues to feature in this report. The topics selected are ones that ProPAC has had under analysis to support the development of potential policy recommendations.

Changes in the area wage adjustment. During the first two years of PPS, the area wage index was based on a national survey of hospital wages and employment conducted by the Bureau of Labor Statistics. A new area wage index was implemented on May 1, 1986 based on data collected directly from hospitals by HCFA.

Under PPS, the wage index is used to adjust hospital payments to reflect area wage differences, and it has a substantial effect on relative hospital payments. Institution of the new index changed the distribution of payments to some degree. The most substantial change was that it raised rural hospital payments relative to urban hospital payments. Nevertheless, rural hospital payments remain substantially below urban hospital payments.

Redistribution of PPS payments during the transition to national rates. The change from cost-based reimbursement to prospective payment based on national averages also has a

significant effect on the distribution of Medicare payments to hospitals. In general, payments shift away from areas that were initially high-cost in the direction of areas that were initially low-cost.

The movement to national rates tends to benefit smaller hospitals and hospitals in the Pacific Census division, and reduces relative payments to large hospitals and hospitals in the North Central region of the U S. Because there are other components to Medicare payments than PPS, and initially high-cost hospitals may be able to reduce costs more than others, it is uncertain whether these findings indicate systematic financial hardship for the hospitals that are relatively disadvantaged by national rates.

Outlier payments. Outlier payment policy has been a controversial component of PPS since its inception. Outlier payments help to defray the losses incurred by hospitals from the random occurence of cases that are unusually expensive, but they do not cover the full costs of these cases, nor are they intended to.

Outlier cases are unevenly distributed among different hospital types. Urban hospitals tend to have more outlier cases and payments than rural hospitals, a fact that persuaded Congress to institute a more equitable system of determining urban and rural outlier contributions beginning in FY 1987.

Outlier cases are also unevenly distributed geographically. For example, hospitals in the East North Central and South Atlantic Census divisions have a relatively high frequency of outlier cases. The geographic distribution is also substantially influenced by the participation of New York in PPS.

The entry of New York State into PPS in 1986 may have changed the outlier payment distribution, because New York hospitals have relatively long lengths of stay. If PPS motivates New York hospitals to reduce length of stay for Medicare beneficiaries, however, the outlier payment distribution may eventually return to its pre-New York configuration. Preliminary evidence indicates that length of stay is beginning to fall in New York under PPS.

Hospital case-mix change. The Medicare case-mix index (CMI) is a measure of the costliness of a hospital's Medicare patients compared to the national average. The index is based on the diagnosis-related groups (DRGs) in which patients are categorized and the weights assigned to each DRG. A hospital's case-mix index is the average weight of its mix of patients. PPS payments are highly dependent on hospitals' patient DRG distributions.

The average CMI has increased steadily since the implementation of PPS. The average CMI was 1.00 in FY 1981, 1.06 in FY 1984, and 1.09 in FY 1985. Additional data reported by HCFA indicate continued increases since 1985. Because these increases have implications for aggregate payment, it has been necessary to partially offset them in the annual update of PPS payment rates. ProPAC's position on this adjustment is that CMI increases that represent real increases in patient care requirements ought to result in higher payments. By contrast, increases that result from changes in record keeping practices in hospitals ought not to be built in to future PPS payments.

The change in CMIs over time shows substantial variation across hospital types. Teaching hospitals and urban hospitals (which overlap considerably) experienced much greater than average CMI growth over the 1981-85 period than did nonteaching and rural hospitals. Hospital size is positively associated with CMI change for both urban and rural hospitals.

Distribution of hospital revenue margins. Medicare Cost Report data pertaining to the first year of PPS were examined to assess variations in financial performance in the very early period of PPS. Hospital revenue margins (revenue minus costs divided by revenue) were computed for PPS revenues, all revenues, and all patient care revenues. The median margins for these three measures were 11.6 percent, 6.7 percent, and 2.5 percent, respectively. The total patient margin is lowest, in part, because it is the most influenced by the costs of uncompensated care.

While these figures portray a picture of good financial health, especially for Medicare business, not all hospitals have been prospering during this period. In addition, it is uncertain whether hospital financial experience has maintained this level of performance since the first year of PPS. For example, even though average revenue margins continue to be positive, the AHA reports that hospital profitability has been declining since the early PPS period.

The mean PPS revenue margin was 14.8 percent and the median margin, which is less affected by extreme values, was 11.6 percent in the first year of PPS. Ten percent of hospitals had PPS margins less than -5.0 percent and ten percent had PPS margins greater than 23.4 percent. In part, this range reflects the movement to payments based on average rates. But since 75 percent of payments were hospital-specific during the first year of PPS, other factors, including hospital response to PPS, are likely to have been at work as well.

The most striking difference in the first year PPS margins is between urban and rural hospitals. The urban average margin was a full 7 percentage points higher than the rural average margin. Over one-fourth of rural hospitals incurred losses under PPS while very few urban hospitals had losses. Changes in payment policy and the movement to national rates are likely to have reduced the disparity between urban and rural hospitals since the first year of PPS. Nevertheless, financial difficulties of rural hospitals deserve continued attention, especially small rural hospitals, which had the highest proportion of PPS losses of any hospital group.

Comparisons of PPS margins with total and all patient margins reveal some interesting patterns -- the differences are not uniform across hospital groups. Major teaching hospitals present the most unusual pattern. These hospitals had the highest median PPS margin (18.8 percent), but the lowest median revenue margin for all patients (-4.3 percent), which probably reflects the costs of uncompensated care. The only other group with a negative median patient margin was small rural hospitals (-3.7 percent).

FINANCIAL EFFECTS OF PPS ON BENEFICIARIES

Much of the controversy over the level of PPS payments relates to what shares of savings generated by PPS should be kept by Medicare and by hospitals. ProPAC is also very concerned about the effects of PPS on amounts that Medicare beneficiaries are required to pay for hospital and other health care. The Commission believes that Medicare beneficiaries should to some extent share any savings that PPS is able to generate.

The Medicare benefit has always been limited in scope, and substantial cost sharing requirements are imposed on beneficiaries who receive covered services. Total spending for the elderly averaged about $4,200 in 1984 and Medicare paid for about 45 percent. Medicare paid for about 92 percent of inpatient hospital care for the elderly in 1984 and a substantially lower proportion of out-of-hospital and long-term care expenditures.

Estimating the effects of PPS on the change in beneficiary financial liabilities is complicated by the nature of the Medicare copayment structure, medical practice pattern changes, and isolating the effects of PPS from other forces. In general, increases in Medicare Part A copayment obligations as a share of Medicare expenditures have been largely offset by decreases in Part B cost sharing as a percent of Part B expenditures in recent years. Nevertheless, Medicare out-of-pocket costs per enrollee have increased 150 percent from $171 in 1978 to $428 in 1984. The percentage increase in total Medicare expenditures was approximately the same during this period.

Shifts in services from inpatient hospital to outpatient settings and shortened hospital stays may have exacerbated the beneficiary liability trend since the beginning of PPS. Data on the overall effects of site-of-care shifts on beneficiary liability are not available. Based on case examples, however, it can be concluded that substituting outpatient surgery or medical treatment for inpatient care probably reduces beneficiary cost sharing responsibilities. This is

because the increase in coinsurance is usually more than offset by avoiding payment of the inpatient hospital deductible.

Providing additional outpatient services after a shortened hospital stay, however, probably increases beneficiary liability. In addition, part of the recent rise in the inpatient deductible can be attributed to the decline in length of stay encouraged by PPS.

Many Medicare beneficiaries have private insurance coverage to supplement their Medicare benefits. In 1984, 64 to 75 percent of the noninstitutionalized elderly had supplemental private coverage, and an additional 8 to 13 percent were eligible for Medicaid. In the years since PPS began, there has been little if any increase in the cost of the private supplemental policies, despite the substantial increase in beneficiary liabilities during this period. Nevertheless, 20 percent (about 5 million) of the elderly still have no health insurance protection other than Medicare.

FINANCING AND DELIVERY OF HEALTH CARE SERVICES

Many public and private health financing organizations are using per-case hospital payment systems with DRGs or something like them defining the unit of payment. Two states have instituted DRG systems for all payers, and an additional eleven states now use such systems in their Medicaid programs. All states apply their own unique methods to determine what the level of payment should be.

Eleven Blue Cross/Blue Shield plans use DRG payments for at least some of their inpatient admissions. Because commercial insurers tend to have relatively low market shares, they have had less opportunity to negotiate DRG systems with individual hospitals. Nevertheless, a few commercial insurers have been successful in instituting DRG payments, and an even larger number use DRGs for analytic and marketing purposes.

In the private sector, growth rates of enrollments in both Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs) continue to be impressive. HMO enrollment grew 26 percent to over 21 million people from the end of 1984 to the end of 1985. (Enrollment of Medicare beneficiaries in HMOs has also experienced substantial growth.) Use of PPOs, a newer form of health care financing, has increased manyfold during the 1980s. Care under PPO arrangements, most of which were developed by insurance companies, is estimated to have been available to as many as 30 million people by the end of 1986.

The major recent change in the pattern of health care delivery, which PPS did not cause but certainly has encouraged, is the growth in frequency and scope of ambulatory health care services during the 1980s. Many of these ambulatory care services are alternatives to inpatient hospital care, which is reflected in the recent declines in inpatient admissions and lengths of stay. Much of the growth in ambulatory care has been in freestanding facilities of varying types. Hospitals have been deeply involved in this trend, in the development of both hospital-based outpatient care and freestanding ambulatory facility care.

The early 1980's have been a period of substantial change in the delivery and financing of health services in the U.S. PPS has been a catalyst for some of this change, but many recent developments originated in the private sector. In general, both public and private financing innovations have attempted to put providers at risk for the cost of unnecessary care and inefficiency. The encouragement of substitution of ambulatory care for inpatient hospital care is an important part of these cost containment strategies.

ISSUES EMERGING FROM CHANGES IN THE HEALTH CARE SYSTEM

ProPAC has been concerned that not all of the potential effects of PPS on health care can be adequately investigated with available data. In fact, several issues will be difficult to examine empirically even after several more years of PPS have passed. The Commission believes that the

effects of PPS should be viewed broadly in the context of the entire health system. Therefore, in the final chapter the Commission addresses a wide range of issues having profound implications for the health of the entire population.

For example, the Commission's concern for the welfare of Medicare beneficiaries extends beyond the inpatient hospital setting. Changes in the patterns of medical practice, some of which are encouraged by the incentives of PPS, are focusing attention on the availability, quality, and financial impact of services delivered outside the hospital. The Commission believes that the time has come to carefully examine the structure of Medicare benefits for the full range of services required in the health care of Medicare beneficiaries.

Changes in health care financing, of which PPS is a part, are intensifying the need to address several broad health policy questions. Evidence has begun to emerge of difficulties in the continued financing of medical education, clinical research, and uncompensated care in U.S. hospitals. Similarly, new methods of financing and their associated incentives bring into question whether the population will continue to have widespread access to health care products that are constantly improving technologically. Future health policy debates must address these issues and the implict trade-offs between quality, access, and cost in health spending.

Source: Prospective Payment Assessment Commission, Medicare Prospective Payment and the American Health Care System, Report to the Congress, February 1987.

The following three tables, from the ProPAC report, "Medicare Prospective Payment and the American Health Care System, Report to the Congress, February 1987" provide background information regarding recent trends in hospital utilization.

TABLE 8.—CHANGE IN HOSPITAL ADMISSIONS PER 1,000 POPULATION, 1976–86

[In percent]

Year	All admissions	Over 65 admissions
1976	2.4	4.3
1977	1.5	1.7
1978	−0.6	2.3
1979	1.5	2.6
1980	1.7	4.3
1981	−0.2	1.0
1982	−0.9	1.8
Average increase 1976–82	0.8	2.6
1983	−1.5	2.4
1984	−4.6	−4.4
1985	−5.7	−7.1
1986[1]	−3.0	−3.9
Average increase 1983–86	−3.7	−3.3

[1] Estimate based on January through August 1985 compared with January through August 1986.

Source: American Hospital Association National Panel Survey. Population data from the U.S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1985, as reported in Prospective Payment Assessment Commission. Medicare Prospective Payment and the American Health Care System, Report to the Congress, February 1987.

TABLE 9.—CHANGE IN OCCUPANCY RATES AND NUMBERS OF BEDS, 1976–86

Year	Occupancy rates (percent)	Percent change	Number of beds	Percent change
1976	74.6	−0.1	933,119	3.0
1977	74.4	−0.3	945,208	1.3
1978	73.8	−0.8	954,001	0.9
1979	74.5	1.0	959,269	0.6
1980	75.9	1.9	970,456	1.2
1981	75.8	−0.1	986,917	1.7
1982	74.6	−1.6	997,720	1.1
Average increase 1976–82	74.8	−0.01	963,813	1.4
1983	72.2	−3.2	1,003,658	0.6
1984	66.6	−7.8	992,616	−1.1
1985	63.6	−4.5	974,559	−1.8
1986[1]	.....	−0.9	.....	−1.0
Average increase 1983–86	66.6	−4.1	983,797	−0.8

[1] Estimate based on January through August 1985 compared with January through August 1986.

Source: American Hospital Association National Panel Survey, as reported in Prospective Payment Assessment Commission. Medicare Prospective Payment and the American Health Care System, Report to the Congress, February 1987.

TABLE 10.—CHANGE IN LENGTH OF STAY, ALL ADULTS AND ADULTS OVER 65, 1976–86

Year	All adults length of stay	Percent change	Adults over 65 length of stay	Percent change
1976	7.4	0.0	11.0	−1.8
1977	7.2	−2.7	10.7	−2.7
1978	7.2	0.0	10.6	−0.9
1979	7.1	−1.4	10.4	−1.9
1980	7.2	1.4	10.4	0.0
1981	7.2	0.0	10.4	0.0
1982	7.2	0.0	10.1	−2.9
Average 1976–82	7.2	−0.4	10.5	−1.5
1983	7.0	−2.8	9.7	−4.0
1984	6.7	−4.3	8.9	−8.2
1985	6.5	−3.0	8.8	−1.1
1986 [1]	6.6	1.5	8.8	0.0
Average 1983–86	6.7	−2.3	9.1	−3.3

[1] Estimate based on January through August 1985 compared with January through August 1986.

Source: American Hospital Association National Panel Survey, as reported in Prospective Payment Assessment Commission. Medicare Prospective Payment and the American Health Care System, Report to the Congress, February 1987.

Reimbursement for Capital-Related Expenses

Present law provides that capital-related costs (including depreciation, interest, rent and, in the case of proprietary entities, a return on equity) are to be excluded from the prospective payment system until October 1, 1987. Until that time, capital costs continue to be reimbursed on a reasonable cost basis.

Public Law 98–21 required the Secretary of Health and Human Services to conduct a study and, within 18 months after enactment of that law, to report to Congress on methods and proposals under which capital costs may be included in the prospective payment system. In March 1986, HHS submitted a report to Congress on incorporating capital costs in the prospective payment rates.

If Congress does not enact legislation by October 1, 1987, to include capital related costs under PPS, Medicare payments for capital costs will be prohibited after September 30, 1987, unless a State has a capital expenditure agreement with the Secretary (under section 1122 of the Social Security Act) and the State has recommended approval of the specific capital expenditure.

Public Law 99–272 provided that payments to proprietary hospitals for a return on equity (ROE) will be separated from payments for other capital costs and will be phased out as follows: for hospital cost reporting periods beginning in fiscal year 1987, payment will equal 75 percent of the otherwise allowable ROE amount; for fiscal year 1988, 50 percent; for fiscal year 1989, 25 percent; and for fiscal year 1990 and thereafter, no ROE payments will be made.

Public Law 99-509 reduced payment amounts for capital-related costs by 3.5 percent for portions of cost-reporting periods in fiscal year 1987, 7 percent for fiscal year 1988, and 10 percent for fiscal year 1989. The legislation exempts sole community hospitals from capital-related payment reductions and regulations for 3 years. It also clarifies that the HHS Secretary may incorporate capital-related costs, on a budget neutral basis into PPS, effective October 1, 1987.

Reimbursable Capital Expenses

Reimbursable capital expenses include:

Depreciation

Depreciation is that amount which represents the portion of an asset's cost or value which is used up during a period of operation. Depreciation accounting is a system of accounting which prorates the cost or other basic value of a tangible capital asset, less salvage value (if any), over its estimated useful life.

An appropriate allowance for depreciation on buildings and equipment used to render care covered by Medicare is reimbursable as a capital cost. Depreciation is based on the historical, i.e., original, cost of the asset except that special rules apply in the case of assets acquired prior to 1966. The program recognizes depreciation on assets in use at the time the provider enters the program even though such assets have been fully or partially depreciated on the provider's books. A depreciation allowance is also permitted on assets that are used in a normal standby or emergency capacity or for assets financed by public funds.

In general, the useful life of an asset is based on the useful-life guidelines published by the American Hospital Association or the Internal Revenue Service. Generally, options for straight-line depreciation (which provides a uniform allowance each year) and accelerated depreciation (which permits a larger writeoff in the initial years) are permitted for assets acquired before August 1970; only straight line and (within limits) declining balance depreciation (which is one form of accelerated depreciation) are recognized for assets acquired at a later date.

Reimbursement for capital-related costs after a change of ownership is limited to the lesser of the amount that would be allowable on the purchase price or the allowable cost under Medicare to the original owner. Thus, upward revaluation of assets is no longer permitted in calculating allowable depreciation expenses. Also, transaction costs are no longer allowable costs in a resale of assets. The conference report for Public Law 98-369 also states the conferee's expectation that the Secretary will determine the reasonableness of rental costs associated with depreciable assets that have been sold in order to prevent circumvention of the revaluation restrictions by sale and lease-back arrangements.

Special rules apply with respect to gains or losses resulting from disposal of assets. In particular, when an asset is sold at a price that differs from its depreciated value, Medicare shares in the gain or loss in the same proportion as it shares in total depreciation expense. Medicare's gain (recapture) is limited to the total amount of

depreciation previously paid to the seller on the asset sold. Medicare's loss is limited to its share of the asset's current depreciated value.

Medicare does not require the funding of depreciation; that is, the provider is not required to set aside the amount allowed for depreciation for replacement of the asset. However, as an incentive for funding, investment income on funded depreciation is not treated as an offset to allowable interest expense.

Public Law 97–34, the Economic Recovery Tax Act of 1981, made a number of changes in the calculation of depreciation for tax purposes. However, the law excludes Medicare (and other programs administered by HHS) from the new depreciation rules for purposes of determining cost reimbursement under the program.

Interest

Necessary and proper interest on current and capital indebtedness is included as reimbursable capital cost under Medicare. Generally, current indebtedness represents short-term loans for working capital for normal operating expenses. Capital indebtedness represents long-term loans in which the funds are used for acquiring facilities and equipment or making capital improvements.

To be recognized as an allowable cost, interest must be incurred on funds needed to satisfy the financial needs of the hospital and must be for a purpose reasonably related to patient care. Public Law 98–369 provides that, in the case where funds are borrowed for the purchase of used assets (change of ownership), the interest expense allowable to the new owner may not exceed the amount that would be incurred by borrowing funds equal to the depreciated value of the assets on the seller's books (i.e., without revaluation).

The rate of interest may not be in excess of what a prudent borrower would have had to incur in the money market in an arm's-length transaction. The interest must be paid to a lender not related through control, ownership, or personal relationship to the borrowing organization.

Generally, allowable interest expenses are reduced by investment income except where such income is from: (1) gifts, grants, and endowments, whether restricted or unrestricted; (2) funded depreciation; (3) a provider's qualified pension fund; or (4) deferred compensation funds.

Return on equity capital of proprietary hospitals

A reasonable return on equity capital invested and used in providing patient care is an allowable cost for proprietary providers. Equity capital is the net worth of a provider excluding those assets and liabilities not related to patient care. Specifically equity capital includes: (1) a provider's investment in plant, property, and equipment (net of depreciation) related to patient care, plus funds deposited by a provider who leases such items where such deposit is required by the lease; and (2) net working capital maintained for necessary and proper operation of patient care activities.

The base amount of equity capital to be used in computing the allowable return is the average investment of the owners during a reporting period. The rate of return (for cost reporting periods on or after April 20, 1983) is equal to the rate of interest paid by the

Federal Treasury on the assets of the Federal Hospital Insurance Trust Fund.

Public Law 98-369 provides that the return on equity capital on assets purchased from a previous owner (change of ownership) is limited to the amount that would be payable if the return were calculated on the depreciated value of the assets on the previous owner's books at the time of the sale.

Public Law 99-272 provided payments to proprietary hospitals for a return on equity (ROE) will be separated from payments for other capital costs and will be phased out as follows: for hospital cost reporting periods beginning in fiscal year 1987, payment will equal 75 percent of the otherwise allowable ROE amount; for fiscal year 1988, 50 percent; for fiscal year 1989, 25 percent; and for fiscal year 1990 and thereafter, no ROE payments will be made.

Table 11 shows variations in the projected level of average capital costs per case by geographic location and type of hospital for fiscal year 1988.

TABLE 11.—FISCAL YEAR 1988 CAPITAL AVERAGE COSTS PER CASE AND PERCENT DISTRIBUTION OF HOSPITALS BY CAPITAL COST PER CASE

	Average cost per case [1] [2]	Percentage distribution of hospital by capital cost per case [1]				
		0 to $149	$150 to $299	$300 to $449	$450 to $599	$600 plus
Overall total	$430	18.6	32.0	20.6	12.0	16.8
Region:						
New England	360	14.1	47.1	18.5	10.1	10.1
Middle Atlantic	423	13.0	34.9	20.0	12.8	19.3
East North Central	436	10.4	33.9	25.6	15.7	14.5
West North Central	411	28.1	38.0	16.2	9.3	8.5
South Atlantic	400	18.0	32.5	22.5	10.6	16.5
East South Central	393	25.9	30.3	19.9	9.7	14.2
West South Central	417	26.8	28.8	18.0	11.5	14.9
Mountain	463	25.9	29.5	21.7	11.1	11.8
Pacific	528	10.2	24.3	21.1	13.9	30.6
Bed size:						
0 to 99	294	32.0	38.5	13.8	6.2	9.5
100 to 299	454	7.4	27.8	25.0	15.6	24.3
300 to 499	443	2.4	21.1	31.3	25.5	19.7
500 plus	470	1.8	21.9	31.8	19.9	24.5
SMSA:						
SMSA	472	7.5	24.5	25.4	17.0	25.7
Non-SMSA	304	30.4	40.0	15.5	6.7	7.3
Teaching status:						
Major Teaching	548	6.3	21.9	23.1	20.0	28.8
Minor Teaching	458	3.2	23.3	30.9	20.5	22.0
Nonteaching	404	22.0	34.0	18.6	10.2	15.3

TABLE 11.—FISCAL YEAR 1988 CAPITAL AVERAGE COSTS PER CASE AND PERCENT DISTRIBUTION OF HOSPITALS BY CAPITAL COST PER CASE—Continued

	Average cost per case [1] [2]	Percentage distribution of hospital by capital cost per case [1]				
		0 to $149	$150 to $299	$300 to $449	$450 to $599	$600 plus
Ownership:						
Church	472	7.4	23.1	28.4	18.4	22.7
Government	308	34.2	39.4	15.5	6.2	4.7
Other	413	15.7	35.5	22.4	12.3	14.2
Proprietary	615	7.7	16.3	19.0	16.0	41.1

[1] Capital cost per case excluding return on equity.
[2] Average cost weighted by dicharges. The unweighted average is $381.

Source: Preliminary CBO estimates using 1984 Medicare Cost File.

Table 12 shows two sets of projections of the level and the rate of increase of aggregate payments and payments per case for capital-related costs in fiscal years 1987 through 1992.

Both sets of projections for capital reflect recently enacted provisions which phase out payments for a return on equity capital for proprietary providers. The second set also includes the anticipated effects of statutory reductions in reimbursements for capital-related costs (i.e., 3.5 percent for portions of cost-reporting periods in fiscal year 1987, 7 percent for fiscal year 1988, and 10 percent for fiscal year 1989) enacted in the Omnibus Budget Reconciliation Act of 1986 (Public Law 99–509).

TABLE 12.—PROJECTED PAYMENTS FOR INPATIENT CAPITAL-RELATED COSTS UNDER MEDICARE'S HOSPITAL INSURANCE PROGRAM, FISCAL YEARS 1977–92[1]

	Without OBRA 1986 reductions [2]			With OBRA 1986 reductions [3]		
	Aggregate payments (in millions of dollars)	Percent increase	Cost per case (in dollars)	Aggregate payments (in millions of dollars)	Percent increase	Cost per case (in dollars)
Fiscal year:						
1987	4,450	9.9	414	4,290	5.9	399
1988	4,870	9.4	442	4,530	5.6	412
1989	5,330	9.4	469	4,800	6.0	422
1990	5,840	9.6	496	5,840	21.7	496
1991	6,480	11.0	532	6,480	11.0	532
1992	7,190	11.0	570	7,190	11.0	570

[1] Projections for capital-related payments reflect recently-enacted provisions which phase out payments for a return on equity capital for proprietary providers.
[2] Does not include the anticipated effects of statutory reductions in reimbursements for capital-related costs enacted in the Omnibus Budget Reconciliation Act of 1986 (P.L. 99–509).
[3] Includes the anticipated effects of statutory reductions in reimbursements for capital-related costs enacted in the Omnibus Budget Reconciliation Act of 1986 (P.L. 99–509).

Source: Congressional Budget Office.

Highlights of Legislation and Regulations Affecting the Prospective Payment System

Medicare's Prospective Payment System (PPS) for hospitals has evolved through legislation and regulation. The original authorizing legislation, the Social Security Amendments of 1983 (P.L. 98–21), was first implemented by final rules issued by the Department of Health and Human Services on January 3, 1984 (49 F.R. 234).

The Deficit Reduction Act of 1984 (P.L. 98–369) made certain changes to PPS. These changes were incorporated into final rules issued by the Department on August 31, 1984 (49 F.R. 34728).

The Department issued final rules on September 3, 1985 (50 F.R. 35645) making certain changes to PPS and freezing the PPS payment rates for fiscal year 1986. However, none of the payment features of these final rules became effective.

The payment features the Department would have applied to fiscal year 1986 could not be implemented because the Emergency Extension Act of 1985 (P.L. 99–107, as amended by P.L. 99–201) extended the payment provisions that were in effect on September 30, 1985 (the final day of fiscal year 1985), through March 14, 1986. The fiscal year 1985 payment provisions were extended again, through April 30, 1986, by Public Law. 99–272. The extension of the fiscal year 1985 payment provisions into fiscal year 1986 had many effects, including a delay in the PPS transition schedule.

The Budget and Emergency Deficit Control Act of 1985 (P.L. 99–177, known as the Gramm-Rudman-Hollings Act) reduced Medicare payments to hospitals in fiscal year 1986.

Two reconciliation bills in the 99th Congress changed a number of PPS provisions. The Consolidated Omnibus Budget Reconciliation Act of 1985 (P.L. 99–272, known as COBRA) was implemented by an interim final rule on May 6, 1986 (51 F.R. 16771), and a final rule on September 3, 1986 (51 F.R. 31453). The Omnibus Budget Reconciliation Act of 1986 (P.L. 99–509) was accompanied by a final rule on November 1986 (51 F.R. 42229).

Legislation and regulation which changed selected features of the prospective payment system are highlighted as follows:

1. Increases in Medicare payments to hospitals

Public Law 98–21 and 49 F.R. 234: Provides that the Medicare DRG payment rates for fiscal years 1984 and 1985 would be increased annually by the increase in the hospital market basket plus 1 percentage point, subject to a budget neutrality requirement which provides that Medicare payments in those 2 years must equal what would have been spent if PPS had not been put in place. Provides that the Secretary would determine the rate of increase for fiscal year 1986 and thereafter, taking into account the recommendations of the Prospective Payment Commission.

Public Law 98–369 and 49 F.R. 34728: Changes the annual increase in the DRG payment rates for fiscal year 1985 to the increase in the market basket plus 0.25 percentage point, subject to budget neutrality. Limited the rate of increase to be determined by

the Secretary for fiscal year 1986 to the rate of increase in the market basket plus 0.25 percentage point.

50 F.R. 35645: The Secretary promulgated a zero rate of increase in the DRG payment rates for fiscal year 1986.

Public Law 99-107: Provided that the payment rates in effect on September 30, 1985, would remain in effect until November 14, 1985. Public Laws 99-155, 99-181, 99-189 and 99-201 extended this requirement through March 14, 1986. (The freeze was extended through April 30, 1986, by P.L. 99-272.)

Public Law 99-177: Reduced fiscal year 1986 Medicare payments to hospitals by 1 percent beginning March 1, 1986.

Public Law 99-272, 51 F.R. 16771, and 51 F.R. 31453: Provided that the fiscal year 1986 PPS payment rates would be frozen at fiscal year 1985 levels until May 1, 1986, and would be increased ½ percent for the remainder of the year.

Public Law 99-509 and 51 F.R. 42229: Increased the payment rates for PPS hospitals by 1.15 percent in fiscal year 1987 and by the hospital market basket minus 2 percent in fiscal year 1988.

2. Wage index

Public Law 98-21: Provided that the Federal portion of the DRG rates be adjusted by a wage index to reflect the hospital wage level in an individual hospital's geographic area relative to the national average hospital wage level.

49 F.R. 234: The Department indicated it would use employment data from the Bureau of Labor Statistics (BLS) to develop the wage index. While acknowledging the limitations of the BLS data (including lack of information about part time employment), the Department stated that BLS data are the best presently available for the development of the wage index.

Public Law 98-369: Required the Secretary, in consultation with the Secretary of Labor, to conduct a study to develop an appropriate wage index, taking into account wage differences of full-time and part-time employees. The results of the study were to be reported to Congress by August 18, 1984. If any changes are made to the wage index as a result of this study, the Secretary is required to make retroactive adjustments to the payment amounts for hospital cost reporting periods beginning on or after October 1, 1983. Required the Secretary to study and report to Congress proposed criteria to be used to modify a hospital's wage adjustment if the hospital can demonstrate that the wage index does not accurately reflect wage levels in the labor market serving the hospital.

49 F.R. 34728: The Department indicated that it surveyed the hospitals subject to PPS to obtain wage and employment data which could be used to develop an improved wage index. However, the data obtained had too many errors to develop a reliable wage index in time for the publication of the August 1984 rules. The Department is planning to use these data, once they are determined to be accurate and reasonably complete, to conduct the mandated study and to construct a revised wage index. The Department indicated that any revised wage index will be retroactive to October 1, 1983, as mandated by law. The Department indicated that it does not intend to address the development of adjustment criteria in the near future.

50 F.R. 35645: The Department promulgated final regulations to implement the survey-based gross wage index retroactive to October 1, 1983. The survey-based wage index used to determine the amount of a hospital's underpayment or overpayment would be based on the recognized urban/rural definition in effect for the entire Federal fiscal year for which the payment adjustment determination is being made. The payment adjustments will be spread out over the course of one year, rather than requiring lump-sum payments to minimize the negative impact on overpaid hospitals.

Public Law 99-107: Provided that Medicare hospital payment amounts would be determined on the same basis as they were on September 30, 1985. Public Laws 99-155, 99-181, 99-189 and 99-201 extended this requirement through March 14, 1986. This means that there can be no change in the wage index until after this date. (This was extended through April 30, 1986, by P.L. 99-272.)

Public Law 99-272: Mandated that the gross wage index be used beginning on May 1, 1986.

3. Referral centers

Public Law 98-21: Required the Secretary to provide for such exceptions and adjustments to the DRG payment amounts as the Secretary deems appropriate to take into account the special needs of regional and national referral centers (including hospitals of 500 or more beds located in rural areas).

49 F.R. 234: The Department's criteria for a referral center were that the hospital must be located in a rural area and have at least 500 beds; or the hospital must have an inpatient population such that at least 50 percent of its Medicare patients are referred from other hospitals or from physicians not on the staff of the hospital, at least 60 percent of the hospital's Medicare patients reside more than 25 miles from the hospital, and at least 60 percent of all services received by Medicare beneficiaries are provided to beneficiaries residing more than 25 miles from the hospital. Such hospitals would be paid on the basis of the higher urban rates, rather than the rural rates. No adjustment was provided for rural referral centers with fewer than 500 beds or for referral centers located in urban areas.

Public Law 98-369: Provided that a rural hospital may appeal to the Secretary to be classified as a rural referral center on the basis of criteria established by the Secretary which would allow the hospital to demonstrate that it should be so classified because it has characteristics (such as wages, scope of services, service area, and mix of medical specialties) similar to those of a typical urban hospital located in the same census region.

49 F.R. 34728: The Department broadened the definition of a rural referral center to include rural hospitals that meet a case mix index threshold, a minimum number of discharges, and one of the following three criteria: more than 50 percent of the hospital's medical staff are specialists, at least 60 percent of discharges are inpatients residing more than 25 miles from the hospital, or at least 40 percent of inpatients have been referred either from other hospitals or from physicians not on the hospital's staff.

50 F.R. 35645: The Department changed the qualifying criteria for referral centers by (1) specifying the methodology for and up-

dating the case mix index thresholds (i.e., either the national case mix index value of 1.1294 or the median urban case mix index value for the hospital's region), and (2) specifying the threshold for the required number of discharges (i.e., either the national discharge criterion of 6,000 or the median number of urban discharges for the hospital's region).

Public Law 99-272: Reduced the requirement that a hospital have at least 6,000 or more discharges a year to 3,000, but only for osteopathic hospitals.

51 F.R. 31453: Reduced the requirement for all other hospitals to 5,369 (or a number at least equal to a specific number of discharges calculated for each census region).

Public Law 99-509: Reduced that requirement further to 5,000. Public Law 99-509 also specified that teaching hospitals should not be considered when calculating the median case mix for urban hospitals which rural hospitals must match in order to qualify as referral centers.

4. Outliers

Public Law 98-21: Required the Secretary to provide for additional payments to hospitals for atypical cases, "outliers" whose length of stay exceeds the mean by a fixed number of days or a fixed number of standard deviations, whichever is fewer; or cases which do not meet the length of stay criteria but have charges adjusted to cost that exceed a fixed multiple of the DPG rate, or some other fixed dollar amount, whichever is greater. Provides that total outlier payments in a fiscal year must be between 5 and 6 percent of total projected DRG payments for that year.

49 F.R. 234: For fiscal year 1984, the Department defined a "day" outlier case as one for which the length of stay exceeds the average length of stay for that DRG by the lesser of 20 days or 1.94 standard deviations. The additional payment for each outlier day beyond the threshold would be 60 percent of the hospital's Federal payment amount for the DRG divided by the average length of stay for the DRG. A "cost" outlier case was defined as one for which covered charges, adjusted to operating costs, exceed the greater of 1.5 times the hospital's Federal payment amount for the DRG or $12,000. For cost outliers, the additional payment is 60 percent of the difference between the hospital's adjusted charges for the discharge and the threshold. The Department expected that under these criteria, outlier payments would approximate 6 percent of total payments to hospitals. No provision was made for outlier payments to transferring hospitals.

49 F.R. 34728: For fiscal year 1985, the Department changed the criterion for day outliers to the lesser of 22 days or 1.94 standard deviations. The criterion for cost outliers was changed to the greater of 2 times the hospital's Federal payment amount for the DRG or $13,000. The Department anticipated that these changes would reduce total outlier payments to hospitals from 6 percent to 5 percent of total DRG payments to hospitals. In addition, the Department permitted a hospital that transfers a high cost patient on or after October 1, 1984, to receive cost outlier payments.

50 F.R. 35645: For fiscal year 1986 the Department changed the criterion for day and costs outliers. If the number of days exceeds

the mean length of stay for discharges within the DRG by the lesser of 17 days or 1.94 standard deviations, it would qualify as a day outlier. A discharge will be considered a high cost outlier if the cost of covered services exceeds the greater of 2.0 times the Federal rate for the DRG or $13,500. The thresholds for both day and cost outliers are still set to achieve outlier payments of 5 percent. However, this change did not go in effect because of Public Law 99-107, as amended by Public Law 99-201. In addition, medical review by a Peer Review Organization (PRO) prior to the payment of cost outlier's would no longer be required. However, if the PRO finds a hospital has a pattern of inappropriately claiming cost outliers payments, all outlier cases from that hospital would be subject to review, and the review could be conducted prior to payment until the PRO determines that appropriate corrective actions have been taken. The regulations also allow hospitals to request an outlier payment at the time they submit the bill for the discharge rather than waiting until they receive the intermediary's determination of the payment rate for the discharge.

Public Law 99-509 and 51 F.R. 42229: Established a separate urban and a separate rural set-aside factor for outliers. As a result, instead of the uniform 5 percent reduction factor applied to all of the standardized amounts, there are now two factors, one for urban standardized amounts and one for rural standardized amounts. Overall, outlier payments are required to be made at the same level as they were before this provision was enacted.

5. Payment for indirect medical education

Public Law 98-21: Provided for additional payments to hospitals for the indirect costs of medical education, computed at twice the level of the educational adjustment factor provided under regulations in effect as of January 1, 1983—under the former "section 223" cost limits. The Federal portion of a hospital's DRG payments is then increased by this doubled factor.

49 F.R. 234: The educational adjustment factor in effect as of January 1, 1983 was 6.06 percent for each 0.1 increase, (above zero), in the ratio of a hospital's full-time equivalent interns and residents to its number of beds. Full-time equivalent interns and residents were defined as the sum of those employed for 35 hours or more per week, plus one-half of the total number of interns and residents working less than 35 hours per week. A hospital was allowed to count only interns and residents who were employed by and furnishing services at that hospital (excluding those employed by the hospital but furnishing services at another site).

Under PPS, the Department provided for an education adjustment factor of 11.59 percent (rather than twice the 6.06 percent factor provided in the earlier regulations). The regulations indicated that 11.59 percent was the appropriate increase after recomputing the factor using the data base on which the DRG payments were based, instead of the data base used to calculate the earlier factor. Criteria for determining which interns and residents could be counted were kept the same as in earlier regulations, except interns and residents furnishing services in the hospital but employed by an organization with a long-standing historical medical relationship with the hospital could be included.

Public Law 98-369: Provided that, effective October 1, 1984, all interns and residents who furnish services to a hospital are to be counted for purposes of determining that hospital's indirect medical education adjustment, regardless of whether or not the interns and residents are employees of that hospital.

49 F.R. 34728: To conform with the change in law, the Department indicated that it would now count full-time interns and residents on the basis of where their services were provided. When working at more than one hospital, each intern's or resident's time would be apportioned to each facility. To avoid the potential for counting interns and residents more than once, the Department is requiring hospitals to submit quarterly reports documenting the time worked by interns and residents. The final lump-sum payment for indirect medical education costs will not be made until the audit of a hospital's cost report is completed.

50 F.R. 35645: The Department changed the method used to determine the number of beds in a hospital for purposes of counting interns and residents for cost reporting periods beginning on or after October 1, 1984. In addition, the requirement that a hospital provide a quarterly report on the number of interns and residents was replaced with an annual report that counts the number of interns and residents on September 1 (with an additional count on April 15, 1985 for hospitals with cost reporting periods beginning on or after October 1, 1984 and before July 1, 1985). The requirement of counting hours of interns and residents to determine full-time equivalents was deleted. Instead, all interns and residents assigned to the hospital on September 1 (or April 15, 1985 if applicable) will be counted as full-time except for those individuals splitting their time between prospective payment areas and one or more areas excluded from PPS, or spending all their time in excluded areas. The intermediary will be required to review the hospital's documentation to verify the hospital's intern- and resident-to-bed ratio.

Public 99-272, 51 F.R. 16771, and 51 F.R. 31453: Based the additional payment to a hospital on a formula that provides an increase of approximately 8.1 percent in the Federal portion of the DRG payment, from May 1, 1986, to October 1, 1989. The payment increases with the ratio of a hospital's interns and residents to its bed size on a curvilinear or variable basis (i.e., the increase in the payment is less than proportional to the increase in the ratio of interns and residents to bed size). The payment adjustment after October 1, 1989, would be an increase of approximately 8.7 percent.

6. Payment for nonphysician anesthetists

Public Law 98-21: Provided that all nonphysician services provided to hospital inpatients would be paid for only as hospital services under Part A of Medicare, not under Part B.

49 F.R. 234: The Department decided to allow a time-limited exception to this provision for the inpatient hospital services of anesthetists employed by physicians. For hospital cost reporting periods beginning before October 1, 1986, physicians could continue to bill Part B for the services of anesthetists if they employed anesthetists as of hospital cost reporting periods ending before September 30, 1983. The costs of these services could not be added to the hospi-

tal's base period for purposes of determining the hospital-specific portion of the payment rate during the transition period.

Public Law 98-369: For hospital cost reporting periods beginning October 1, 1984, and ending before October 1, 1987, removes from the definition of "operating costs of inpatient hospital services" the costs of anesthesia services associated with the employment of, or contracts for, certified nurse anesthetists (CNAs). Such costs will not be paid for in the DRG rates, but will be passed through and paid for on the basis of reasonable costs. Requires the Secretary to study and report to Congress as soon as is practicable possible methods of reimbursement which will not discourage the use of CRNAs by hospitals. The Conference Report for this legislation indicates that the conferees understand that the administration will modify the regulations to permit physicians who did not employ CRNAs before the specified date to bill Part B for the services of CRNAs whom they have subsequently employed; such billing will terminate on October 1, 1987, rather than October 1, 1986.

49 F.R. 34728: The Department changed the regulations to incorporate the changes made by Public Law 98-369 (as described above). In addition, the Department clarified that these provisions apply to the costs of anesthesia services provided by qualified nonphysician anesthetists, including anesthesiology assistants as well as CRNAs.

Public Law 99-509: Extended current payment provisions for the services of hospital-employed CRNAs for cost reporting periods beginning before October 1, 1988. The legislation authorized direct reimbursement to a CRNA for anesthesia services and related care which he or she is legally authorized to perform in the State. These payments would be made equal to the lower of 80 percent of actual charges or 80 percent of a fee schedule amount established by the Secretary. This provision is to be budget neutral. CRNAs would be required to accept Medicare's determination of the allowable amount (Medicare's payment plus the patient's 20 percent coinsurance amount) as payment-in-full for all Medicare services. The fee schedule would apply to services provided after October 1, 1988. Special limits on the actual charges of nonparticipating physicians for CRNA services and medical direction would apply.

7. Urban/rural boundaries

Public Law 98-21 and 49 F.R. 234: Provided that hospitals in urban areas be paid different Federal DRG rates than hospitals located in rural areas. Urban areas are defined as those located within a Metropolitan Statistical Area (MSA) or a New England County Metropolitan Area (NECMA). Rural areas are those not classified as urban areas. Provided that during a 3-year transition period hospitals be paid on the basis of Federal DRG payment amounts calculated separately for each of the nine census regions of the country.

Public Law 98-369: Provided that hospitals located in an MSA that crosses census region boundaries be deemed to be in the region in which a majority of the hospitals in that MSA are located or, at the option of the Secretary, the region from which the majority of the Medicare inpatient discharges within that MSA are made. In addition, provided that hospitals located in counties redes-

ignated from urban to rural because of a change in the MSA or NECMA classification system since April 20, 1983, be allowed a 2-year transition to the lower rural payment rates. In the first hospital costs reporting year, the hospital would be paid the rural rate plus two-thirds of the difference between its rural and urban rates. In the second year, it would be paid the rural rate plus one-third of the difference between its rural and urban rates.

49 FR 34728: The Department changed the regulations to conform to the changes in Public Law 98-369 (as described above). However, in determining the appropriate region for hospitals in MSA's which cross more than one region's boundaries, the Department chose not to use the criterion of the number of Medicare inpatient discharges. Also, if an equal number of hospitals within the MSA are located in each census region, the Department provided that such hospitals will be deemed to be in the census region with the higher Federal rate.

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———. Use of unaudited hospital cost data resulted in overstatement of Medicare's prospective payment system rates; report to the Congress of the United States by the Comptroller General. July 18, 1985. [Washington] U.S. Government Printing Office, 1985. 16 p. (GAO/HRD-85-74)

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APPENDIX F. MEDICARE REIMBURSEMENT TO PHYSICIANS

Reasonable Charges

Medicare pays for physicians' services on the basis of *"reasonable charges."* Recently, HCFA has begun calling these charges *"approved charges."* A reasonable or approved charge for a service (in the absence of unusual circumstances) cannot exceed:

—the *actual charge* for the service;
—the physician's *customary charge* for the service; and
—the *prevailing charge* for similar services in the locality (set at a level no higher than is necessary to cover the 75th percentile of customary charges).

Carriers delineate localities which are usually political or economic subdivisions of a State. There are 225 localities nationwide.

Prior to 1984, customary and prevailing charge fee screens were updated every July 1. The annual update in the prevailing charge screens was subject to an *economic index limitation.* This limitation (expressed as a maximum allowable percentage increase) is tied to economic indexes reflecting changes in operating expenses of physicians and in earnings' levels (see table 1).

Because the Deficit Reduction Act of (1984 DEFRA) froze physicians' fees through September 30, 1985, the annual increases in the customary and prevailing charge screens otherwise slated for July 1, 1984, did not occur. Subsequent fee screen updates were slated to occur on October 1 of future years beginning in 1985. However, the increase slated to occur on October 1, 1985, was postponed. The next update occured on May 1, 1986, for participating physicians only (see discussion of participating physicians, below).

All physicians received an increase of 3.2 percent in their maximum allowable prevailing charges, effective January 1, 1987. In future years, the percent increases in the MEI will be applied to the previous prevailing charge for participating and nonparticipating physicians, respectively. There will be a permanent differential in the prevailing charges applicable for nonparticipating versus participating physicians.

TABLE 1.—ECONOMIC INDEX VALUES AND PERCENTAGE INCREASE OVER PRIOR PERIOD

Period	Rates	Percent [1]
July 1, 1973	1.000	.....
July 1, 1975 to June 30, 1976	1.179	[2] 17.90
July 1, 1976 to June 30, 1977	1.276	8.23
July 1, 1977 to June 30, 1978	1.357	6.35
July 1, 1978 to June 30, 1979	1.426	5.08
July 1, 1979 to June 30, 1980	1.533	7.50
July 1, 1980 to June 30, 1981	1.658	8.15
July 1, 1981 to June 30, 1982	1.790	7.96
July 1, 1982 to June 30, 1983	1.949	8.88
July 1, 1983 to June 30, 1984	2.063	5.85
July 1, 1984 to Sept. 30, 1985	[3] 2.132	[3] 3.34
Oct. 1, 1985 to Sept. 30, 1986	[3] 2.128	[3] 3.15
May 1, 1986 to Dec. 31, 1986	[4] 2.149	[4] 4.15
Jan. 1, 1987 to Dec. 31, 1987	2.218	3.20

[1] Percent increase over prior period.
[2] Large increase due to delay in implementation.
[3] Not applicable due to fee freeze.
[4] Updated the prevailing charge for participating physicians only.

Definition of "Assignment"

Medicare payments are made either directly to the doctor or to the patient depending upon whether the physician has accepted assignment for the claim. In the case of *assigned claims,* the beneficiary assigns (i.e., transfers) his right to payment from Medicare to the physician. In return, the physician agrees to accept Medicare's "reasonable" charge determination as payment in full for covered services. The physician bills the program directly and is paid an amount equal to 80 percent of Medicare's reasonable charge (less any deductible, where applicable). The patient is liable for the 20 percent coinsurance. The physician may not charge the beneficiary (nor collect from another party such as a private insurer) more than the applicable deductible and coinsurance amounts. When a physician accepts assignment, the beneficiary is therefore protected against having to pay any difference between Medicare's approved charge and the physician's actual charge. In fiscal year 1986 approximately 68 percent of net claims were paid on an assignment basis. In the case of *nonassigned claims,* payment is made by Medicare directly to the beneficiary on the basis of any itemized bill, paid or unpaid. The beneficiary is responsible for paying the physician's bill. In addition to the deductible and coinsurance amounts, the beneficiary is liable for any difference between the physician's actual charge and Medicare's approved charge.

A physician (except one who becomes a participating physician) may accept or refuse requests for assignment on a bill-by-bill basis, from different patients at different times, or from the same patient at different times. However, he is precluded from fragmenting bills for the purpose of circumventing reasonable charge limitations. He must either accept assignment or bill the patient for all of the serv-

ices performed on a single occasion. Additionally, when a physician treats a patient who is also eligible for Medicaid, he is essentially required to accept assignment. Total reimbursement for services provided to these dual eligibles is equivalent to the Medicare-determined approved charge with Medicaid reimbursing for the required deductible and coinsurance amounts.

The law specifies that a physician who knowingly, willfully, and repeatedly violates his assignment agreement is guilty of a misdemeanor. The penalty for conviction is a maximum $2,000 fine, up to 6 months' imprisonment, or both.

Participating and Nonparticipating Physicians

A physician may become a *participating physician.* A participating physician is one who voluntarily enters into an agreement with the Secretary to accept assignment for all services provided to all Medicare patients for a future specified period, generally 12 months. The first such period began October 1, 1984. The next period began October 1, 1985. A special 8-month period began May 1, 1986. Future 12-month periods will begin on January 1 of each year beginning in 1987. The law requires physicians to sign up prior to the start of the participation period. After that time, only new physicians in an area or newly licensed physicians may enter into a participation agreement until the beginning of the next designated time period. A physician who has signed up for one participation period is deemed to have signed up for future periods unless he terminates his agreement.

A *nonparticipating physician* is a physician who has not signed a voluntary participation agreement. A nonparticipating physician may accept assignment on a case-by-case basis.

The law includes a number of incentives to encourage physicians to become participating physicians. During the freeze period the primary incentive for physicians to participate was the ability to increase their billed charges. While increases in billed charges did not raise Medicare payments during the freeze period, these charges will be reflected in the calculation of future customary charge screen updates. The freeze was lifted for participating physicians on May 1, 1986; these physicians received an increase of 4.15 percent in their maximum allowable prevailing charges. Nonparticipating physicians were subject to the freeze through December 31, 1986. During the entire freeze period, nonparticipating physicians could not raise their actual charges above the levels charged during April–June 1984. Thus, there are two prevailing charge levels applicable for physicians in a locality—one for participating physicians and a lower one for nonparticipating physicians. All physicians will receive an increase of 3.2 percent in their maximum allowable prevailing charges, effective January 1, 1987. In future years, the percent increase in the MEI would be applied to the previous prevailing charge for participating and nonparticipating physicians, respectively.

The freeze was lifted for nonparticipating physicians effective January 1, 1987. However, these physicians are subject to a limit on their actual charges. (This is referred to as the maximum allowable actual charge or MAAC). Nonparticipating physicians whose

actual charge for a service in the preceding year equals or exceeds 115 percent of the current year's prevailing charge could increase their actual charges by 1 percent. Nonparticipating physicians whose actual charge for the preceding year is below 115 percent of the current year's prevailing charge would be subject to a less restrictive limit; they could increase their actual charges over a 4-year period so that in the fourth year the actual charge equals 115 percent of the prevailing charge. The MAAC for a nonparticipating physician whose actual charge for a service in the previous year is less than 115 percent of the current year's prevailing charge is the greater of: (i) the amount which is 1 percent above the physician's previous year's actual charge; or (ii) an amount based on a comparison between the physician's MAAC for the previous year and 115 percent of the current prevailing charge. Under clause (ii), the MAAC for the current year equals the previous year MAAC increased by a fraction of the difference between 115 percent of the current year prevailing and the previous year MAAC. The applicable fractions are one-quarter, one-third, one-half and one for 1987, 1988, 1989, and 1990, respectively. For example, if a physician's 1986 MAAC for a service is $100 and 115 percent of the 1987 prevailing charge amount is $124, the 1987 MAAC for that physician for that service is $106 [$100 + 0.25 ($124 − $100)].

In addition to the payment provisions, the law includes additional incentives to become participating physicians. These include the publication of directories identifying participating physicians, and the maintenance by carriers of toll-free telephone lines to provide beneficiaries with names of participating physicians. Further, beginning on October 1, 1986, all "Explanation of Medicare Benefits" (EOMB) notices sent to Medicare beneficiaries on unassigned claims must include a reminder of the participating physician and supplier program.

The law requires the Secretary to monitor charges of nonparticipating physicians to determine compliance with the fee freeze and the MAAC limits.

Nonparticipating physicians who are in violation of the freeze could be subject to civil monetary penalties or assessments, exclusion for up to 5 years from the Medicare program, or both. Civil monetary penalties may be imposed in amounts up to $2,000 for each violation. The Secretary is given authority to make restitution to the beneficiary out of the amounts collected for any excess payments made by the beneficiary.

The Secretary may not impose the exclusion penalty in the case of a doctor who is the sole physician serving a community or a physician providing essential specialized services that would otherwise be unavailable. Further, the Secretary, in determining whether to bar a physician from the program, is required to take into account the access of beneficiaries to physicians' services.

"Inherent Reasonableness" Guidelines

By law, the Secretary is authorized to establish a payment limit for a physicians' service based on considerations other than actual, customary, or prevailing for the service. A departure from the

standard is appropriate under a number of specified circumstances including the following:

—Prevailing charges in a locality are significantly in excess of or below prevailing charges in other comparable localities, taking into account the relative costs of furnishing services.

—Medicare and Medicaid are the sole or the primary sources for payment.

—The marketplace is not truly competitive.

—There have been increases in charges for a service that cannot be explained by inflation or technology.

—The charges do not reflect changing technology, increased facility with that technology, or changes in acquisition or production costs.

—The prevailing charges for a service are substantially higher or lower than payments by other purchasers in the same locality.

The Secretary is authorized to make an adjustment in payment if it is justified on the basis of an appropriate comparison of resource costs or charges. An adjustment may be based on one of the following types of comparisons: charges and resource costs for related procedures, charges and resource costs for a procedure over a period of time, charges for a procedure in different geographic areas, and Medicare charges and allowed payments for a procedure compared to those of other payors.

An adjustment in prevailing charges may be made only if the Secretary determines that a prevailing charge allowed in a locality is out of line with prevailing charges allowed in other localities after accounting for differences in practice costs.

In determining whether to adjust payment rates, the Secretary would be required to consider the potential impacts on quality, access, and beneficiary liability including the likely effects on assignment rates, reasonable charge reductions on unassigned claims, and participation rates of physicians.

The law specifies procedures the Secretary is required to follow in the case of proposed modification in payments based on inherent reasonableness criteria. If an adjustment is made which results in a reduction in allowed payments, a special limit on actual charges for nonparticipating physicians would apply. For the first year the reduction is in effect, the maximum allowable actual charge for the service equals 125 percent of the inherently reasonable charge level plus one-half of the difference between the physician's actual charge in the preceding period and 125 percent of the inherently reasonable charge. In the second year, the maximum allowable charge for the service equals 125 percent of the inherently reasonable charge level.

Cataract Surgery Payments

Cataract surgery involves the removal (by various means) of the natural lens of the eye and replacement of the lens by a prosthetic (artificial) lens. Under the provisions of Public Law 99-509, the maximum allowable prevailing charges, otherwise recognized for participating and nonparticipating physicians performing a cataract surgical procedure, are to be reduced by 10 percent with respect to procedures performed in 1987. They are to be further re-

duced by 2 percent with respect to procedures performed in 1988. In no case may the reduction for a surgical procedure result in a prevailing charge that is less than 75 percent of the weighted national average of such prevailing charges for such procedure for all localities in the United States in 1986. Public Law 99-509 also placed a limit on payments for anesthesia services furnished by physicians during cataract surgery.

Recent Legislation

Recent legislation, beginning with the enactment of DEFRA in 1984, made significant modifications in the physician payment provisions of Medicare.

DEFRA froze physicians' fees under Medicare for the 15-month period, July 1, 1984, through September 30, 1985. Therefore, the annual updating of customary and prevailing charge screens, otherwise slated for July 1, 1984, did not occur. Subsequent fee screen updates were slated to occur on October 1 of future years beginning in 1985. DEFRA established the concept of participating physicians and specified that the first participation period began October 1, 1984. Participating physicians were subject to the 15-month freeze. They were, however, permitted to increase their billed charges during the freeze period. The law included additional incentives for physicians who agreed to become participating physicians. These included the publication of directories identifying participating physicians and the maintenance by carriers of toll free lines to provide beneficiaries with names of participating physicians.

The law specified that nonparticipating physicians could not increase their billed charges during the 15-month freeze period over the amounts charged for the same services during the April 1, 1984, through June 30, 1984, period. DEFRA required the Secretary to monitor charges of nonparticipating physicians and specified penalties for those who failed to comply with the freeze.

The Temporary Emergency Extension Act of 1985 (P.L. 99-107), as amended, extended the fee freeze provisions through March 14, 1986.

COBRA extended the existing payment provisions through April 1986. In April 1986, physicians were given an opportunity to change their participation status for the 8-month period beginning May 1, 1986. Future update and participation cycles begin on January 1 of each year beginning in 1987. Physicians covered under participation agreements on May 1, 1986, received updates in their customary and prevailing charges. The freeze was extended through December 31, 1986, for nonparticipating physicians. COBRA provided that, beginning January 1, 1987, nonparticipating physicians would be subject to the prevailing charge limits applied to participating physicians during the preceding participation period. (See modification contained in Public Law 99-509, discussed below.)

COBRA also provided for the establishment of an independent Physician Payment Review Commission. The mission and ongoing duties are to make recommendations regarding Medicare physician payments. The Commission members were appointed on June 11, 1986.

The Omnibus Budget Reconciliation Act of 1986 (P.L. 99-509) made a number of changes in the physician payment provisions, as follows:

—Beginning in 1987, all participating and all nonparticipating physicians will receive an increase in their prevailing charge levels, above those in effect for the previous period equal to 3.2 percent. In 1988 and future years, prevailing charges would be increased by the percentage increase in the MEI.

—The 1 percentage point increase over the MEI, which was allowed for participating physicians for the period beginning May 1, 1986, was built into the base for future calculations.

—The Secretary cannot retrospectively revise the calculation of the MEI. The Secretary is required to conduct a study of the MEI to ensure that the index reflects economic changes in an appropriate and equitable manner.

—Nonparticipating physicians are subject to a limit on their actual charges.

—Where the actual charge for a nonassigned elective surgical procedure exceeds $500, the physician is required to disclose to the individual in writing, the estimated charge, the estimated approved charge, the excess of the physician's actual charge over the approved charge, and the applicable coinsurance amount.

Public Law 99-509 authorizes the Secretary under the inherent reasonableness authority, to establish a payment level for physician services based on criteria other than the actual, customary, and prevailing charge for the service. The law specifies criteria and procedures for adjusting payment levels. The Secretary is required to review, by October 1, 1987, the inherent reasonableness of payments for 10 of the most costly procedures paid for under Part B. The law also provided for reductions in prevailing charges for cataract surgical procedures.

Public Law 99-509 requires the Secretary to study and report to Congress by July 31, 1987, concerning the design and implementation of a prospective payment system for payment under Part B for radiology, anesthesiology, and pathology services (RAP services) furnished to hospital inpatients.

COBRA required the Secretary, with the advice of the newly established Physician Payment Commission, to develop a relative value scale (RVS) for physician payments. Public Law 99-509 defers the date the Secretary is required to report on the RVS to July 1, 1989. The potential application date of the RVS is deferred until after December 31, 1989.

Assignment Rate Experience

The total number of assigned claims as a percentage of total claims received by medicare carriers is known as the total assignment rate. The net assignment rate was computed in the same manner except that it omitted hospital-based physicians and group-practice prepayment plans which were considered assigned by definition (this distinction is no longer made). The net assignment rate declined since 1968, the year the Department of Health, Education, and Welfare (now the Department of Health and Human Services)

began reporting this data. In the mid-1970's the rate leveled off at about 50 percent. Recently the rate has increased significantly. This reflects both the impact of the participating physician program as well as the new requirement that independent laboratory services must be paid on an assigned basis. Table 2 shows the net assignment rates for calendar years 1968–85.

TABLE 2.—NET ASSIGNMENT RATES, BY YEAR, 1968–86

[In percent]

Calendar year	Net assignment rate [1]
1968	59.0
1969	61.5
1970	60.8
1971	58.5
1972	54.9
1973	52.7
1974	51.9
1975	51.8
1976	50.5
1977	50.5
1978	50.6
1979	51.3
1980	51.5
1981	52.3
1982	53.0
1983	53.9
1984	59.0
1985	68.6
1986 [2]	68.0

[1] Represents the number of assigned claims as a percent of claims received, excluding claims from hospital-based physicians and group-practice prepayment plans that are considered assigned by definition.

[2] Fiscal year 1986.

Source: U.S. Department of Health and Human Services, Social Security Administration, Social Security Bulletin, Annual Statistical Supplement, 1983. p. 209.

The statistics included in table 2 are program-wide data. Assignment rates also vary geographically. For example, the assignment rate (taken as a percent of dollars) for fiscal year 1986 ranged from a low of 31.2 percent in Idaho to a high of 92.6 percent in Massachusetts. The national average during this period was 68 percent (see table 4).

TABLE 3.—NET ASSIGNMENT RATES, BY REGION, 1969, 1980, 1981, 1985, AND 1986

[In percent]

Region	1969 [1]	1980 [2]	1981 [2]	1985 [3]	1986 [3]
Boston	73.7	67.4	66.9	80.5	81.6
New York	48.7	51.8	54.0	70.5	71.5
Philadelphia	57.3	61.6	62.5	81.0	82.0
Atlanta	58.8	52.3	53.2	65.2	64.8
Chicago	54.5	47.6	48.8	65.0	65.1
Dallas	71.1	50.3	52.0	62.3	62.4
Kansas City	63.8	40.4	40.2	56.9	57.1
Denver	73.0	39.5	38.0	52.5	51.4
San Francisco	70.5	53.2	53.2	70.4	70.4
Seattle	64.8	31.3	30.5	45.7	46.0

[1] Department of Health, Education, and Welfare, Social Security Administration, Office of Research and Statistics. DHEW pub. No. (SSA) 72-11702, HI-33, Jan. 10, 1972. p. 6.
[2] Department of Health and Human Services, Health Care Financing Administration, Bureau of Program Operations, Analysis of Medicare Part B Assignment Rates: Calendar year 1981, n.d.
[3] Health Care Financing Administration.

TABLE 4.—NET ASSIGNMENT RATES OF PART B CARRIERS, CALENDAR YEARS 1980, 1981, AND FISCAL YEAR 1986

Carrier	1980	1981	1986
Total	51.5	52.3	68.0
Boston region	67.4	66.9	81.6
Connecticut—General	44.1	44.9	64.3
Maine-Massachusetts B/S [1]	67.8	65.8	[4] 75.3
Massachusetts B/S	77.9	77.6	92.6
New Hampshire-Vermont B/S	51.1	49.2	.....
New Hampshire	48.3	46.7	[4] 56.7
Vermont	56.2	54.1	[4] 63.3
Rhode Island	81.6	82.2	92.0
New York region	51.8	54.0	71.5
New Jersey—Prudential	48.6	50.0	65.2
New York B/S—Binghamton	56.7	57.7	73.3
New York B/S—New York	53.8	56.7	73.2
New York—Group Health	39.2	42.6	73.8
Puerto Rico B/S	48.5	52.8	81.4
Puerto Rico	48.5	52.9	81.5
Virgin Islands	35.8	39.0	61.9
Philadelphia region	61.6	62.5	82.0
Delaware [2]	64.0	62.8	77.8
District of Columbia B/S [3]	59.6	61.2	78.5
Maryland B/S	61.9	63.1	81.0
Pennsylvania B/S	65.7	66.9	88.0
Virginia—Travelers	52.6	51.9	64.2
West Virginia—Nationwide	51.0	51.7	71.3

TABLE 4.—NET ASSIGNMENT RATES OF PART B CARRIERS, CALENDAR YEARS 1980, 1981, AND FISCAL YEAR 1986—Continued

Carrier	1980	1981	1986
Atlanta region	52.3	53.2	64.8
Alabama B/S	63.9	63.6	76.6
Florida B/S	38.4	40.4	62.2
Florida—Group Health	69.5	73.0	.....
Georgia—Prudential	59.6	59.6	69.3
Kentucky—Metropolitan	54.1	53.2	[5] 63.1
Mississippi—Travelers	63.8	63.1	69.1
North Carolina—Prudential	52.9	54.5	67.3
South Carolina B/S	57.8	56.5	60.8
Tennessee—Equitable	54.0	52.6	56.7
Chicago region	47.6	48.8	65.1
Illinois—EDSF	43.8	45.7	[6] 61.5
Indiana B/S	31.7	31.6	55.6
Michigan B/S	72.8	74.9	87.5
Minnesota B/S	23.8	26.2	35.5
Minnesota—Travelers	32.8	35.1	49.1
Ohio—Nationwide	37.9	38.6	56.9
Wisconsin B/S	36.2	37.4	54.1
Dallas region	50.3	52.0	62.4
Arkansas B/S	56.0	57.9	71.2
Louisiana—Pan American	46.9	46.1	[7] 65.0
New Mexico—Equitable	44.5	44.2	64.6
Oklahoma—Aetna	17.8	18.2	48.6
Oklahoma—SRS	97.0	96.8	.....
Texas B/S	52.8	55.3	62.5
Kansas City region	40.4	40.2	57.1
Iowa B/S	35.9	35.8	46.9
Kansas B/S	49.1	48.0	69.9
Missouri B/S	41.0	41.7	72.9
Missouri—General American	40.1	40.0	53.4
Nebraska—Mutual of Omaha	33.6	32.7	[8] 40.4
Denver region	39.5	38.0	51.4
Colorado B/S	47.9	47.6	58.7
Montana B/S	24.5	24.0	41.4
North Dakota B/S	30.8	29.8	37.5
North Dakota	33.3	32.4	40.0
South Dakota	27.0	25.9	34.8
Utah B/S	44.2	35.5	61.3
Wyoming—Equitable	18.0	18.8	40.1
San Francisco region	53.2	53.2	70.4
Arizona-Nevada—Aetna	31.6	34.2	59.1
Arizona	28.1	31.4	54.6
Nevada	46.7	47.2	78.3
California B/S	65.1	53.8	68.9
California—Occidental	44.1	57.7	75.1
Hawaii—Aetna	41.0	41.8	65.9

TABLE 4.—NET ASSIGNMENT RATES OF PART B CARRIERS, CALENDAR YEARS 1980, 1981, AND FISCAL YEAR 1986—Continued

Carrier	1980	1981	1986
Seattle region	31.3	30.5	46.0
Alaska-Oregon—Aetna	23.4	23.9	43.7
Alaska	48.8	52.6	61.4
Oregon	22.7	23.1	43.1
Idaho—Equitable	21.3	20.3	31.2
Washington B/S	37.1	35.8	49.7
Railroad Retirement Board—Travelers	41.8	43.4	62.4

[1] B/S means Blue Shield.
[2] Represents operations under Pennsylvania Blue Shield beginning Aug. 1, 1981.
[3] Represents operations under Pennsylvania Blue Shield beginning Oct. 1, 1981.
[4] 1986 carrier is Massachusetts B/S.
[5] 1986 carrier is Kentucky B/S.
[6] 1986 carrier is Illinois B/S.
[7] 1986 carrier is Lousiana-Arkansas B/S.
[8] 1986 carrier is Iowa B/S.

Source: DHHS, HCFA.

Participating Physician Program Data

For the participation period beginning October 1, 1985, 27.9 percent of physicians billing Medicare were participating, 32.2 percent of limited license practitioners (i.e., chiropractors, dentists, podiatrists) were participating, and 23 percent of Medicare suppliers were participating. For the participation period beginning October 1, 1986, 28.4 percent of physicians (including limited licensed practitioners) were participating and 23.0 percent of suppliers were participating, for an overall participation rate of 27.7 percent.

The overall participation percentages do not vary substantially from fiscal years 1985 to 1986. Approximately 15 percent of fiscal year 1985 participating physicians dropped out of the program in fiscal year 1986. In 1986, there were 13,718 new physician participants and 2,932 new supplier participants.

TABLE 5.—PARTICIPATION PERCENTAGE, BY SPECIALTY, FISCAL YEARS 1985 AND 1986

Specialty	Fiscal year— 1986 participation percentage	1985 participation percentage
Physicians (M.D.s and D.O.s):		
General Practice	23.6	27.3
General Surgery	34.5	33.9
Otology, Laryngology, Rhinology	25.1	24.6
Anesthesiology	21.7	21.1
Cardiovascular Disease	38.8	35.6
Dermatology	37.8	34.0
Family Practice	27.1	25.5
Internal Medicine	31.1	32.5
Neurology	33.2	34.8
Obstetrics-Gynecology	30.5	29.1
Ophthalmology	28.7	27.3
Orthopedic Surgery	38.3	29.0
Pathology	37.7	39.6
Psychiatry	27.8	30.0
Radiology	39.5	41.3
Urology	29.0	27.8
Nephrology	46.2	50.8
Clinic or Other Group Practice-Not GPPP	35.4	33.8
Other Medical Specialties	28.3	32.4
Other Surgical Specialties	12.7	18.2
Limited License Practitioners (LLP):		
Chiropractor	23.8	25.4
Podiatry-Surgical Chiropody	31.8	38.2
Optometrist	48.2	44.0
Other Limited License Practitioners (Audiologist, psychologist, physical therapist)	33.8	36.8
Suppliers:		
Independent Laboratory	36.3	28.4
Durable Medical Equipment Suppliers	18.7	22.7
Ambulance Service Suppliers	38.6	28.6
Miscellaneous Suppliers (Orthotists, prosthetists, portable x-ray suppliers)	22.9	22.5

Source: Health Care Financing Administration.

TABLE 6.—NUMBER OF PARTICIPATING PHYSICIANS/SUPPLIERS, PERCENTAGE PARTICIPATION BY STATE, FISCAL YEAR 1985 AND 1986

State	Fiscal year 1986 participation—				Percent total fiscal year 1985 participation	Percent both years [1]
	Physicians/ suppliers	Percent physicians	Percent supplier	Percent total		
Alabama	3,080	54.4	32.2	50.1	50.2	91.7
Alaska	82	10.4	18.1	11.7	12.2	87.8
Arizona	1,077	15.4	22.7	16.1	18.7	85.0
Arkansas	1,781	45.2	26.0	41.4	41.9	91.3
California	17,956	30.0	24.5	29.4	30.4	90.0
Colorado	1,166	28.1	38.1	29.9	42.2	87.0
Connecticut	1,442	22.2	27.1	22.9	25.8	84.5
Delaware	494	23.9	13.6	22.6	31.8	91.1
District of Columbia	2,516	30.5	17.2	290	49.1	90.4
Florida	6,890	25.7	16.5	24.0	24.4	71.8
Georgia	3,595	33.1	24.6	32.2	33.0	83.0
Hawaii	810	20.6	24.5	20.7	18.2	84.1
Idaho	192	11.0	14.8	11.5	13.2	83.9
Illinois	4,907	23.1	12.2	21.8	22.7	95.2
Indiana	1,287	18.2	9.1	15.8	18.5	88.1
Iowa	2,332	29.7	28.7	29.4	34.4	89.5
Kansas	2,104	45.4	29.4	42.5	49.6	89.2
Kentucky	2,463	24.3	23.1	24.2	23.3	87.9
Louisiana	944	18.8	12.0	17.7	27.1	72.2
Maine	1,133	35.4	27.7	33.1	39.9	81.3
Maryland	2,293	30.4	30.7	30.5	30.3	86.2
Massachusetts	6,574	48.1	43.6	47.2	47.3	88.8
Michigan	8,152	44.0	26.8	42.3	42.3	92.8
Minnesota	2,253	18.5	24.3	19.2	19.0	87.9
Mississippi	806	19.1	30.0	21.2	22.2	89.0
Missouri	4,022	35.2	17.7	32.7	32.1	89.5
Montana	343	24.3	17.0	22.1	18.8	76.4
Nebraska	745	20.0	24.2	21.3	25.7	94.5
Nevada	556	21.7	11.9	20.4	32.7	77.3
New Hampshire	561	26.9	39.2	29.5	30.1	93.2
New Jersey	2,556	18.0	19.0	18.2	20.0	83.8
New Mexico	559	17.7	21.9	18.4	44.6	85.2
New York	10,274	20.8	27.4	21.6	22.9	93.1
North Carolina	3,723	39.1	19.5	36.9	39.0	87.9
North Dakota	245	10.9	19.4	13.0	12.8	70.5
Ohio	6,239	21.7	18.4	21.3	23.1	91.6
Oklahoma	1,032	13.8	17.2	14.1	13.8	84.2

TABLE 6.—NUMBER OF PARTICIPATING PHYSICIANS/SUPPLIERS, PERCENTAGE PARTICIPATION BY STATE, FISCAL YEAR 1985 AND 1986—Continued

State	Fiscal year 1986 participation—				Percent total fiscal year 1985 participation	Percent both years [1]
	Physicians/ suppliers	Percent physicians	Percent supplier	Percent total		
Oregon	1,043	18.5	19.3	18.7	17.3	83.6
Pennsylvania	18,999	50.8	26.9	47.2	47.9	92.5
Rhode Island	914	46.7	24.0	43.0	42.0	81.8
South Carolina	678	17.9	9.3	17.3	16.0	77.1
South Dakota	181	8.0	15.3	10.3	10.7	74.6
Tennessee	1,573	21.1	28.2	22.3	27.3	85.6
Texas	6,900	19.7	17.6	19.5	20.2	88.7
Utah	911	29.3	28.2	29.1	31.4	83.9
Vermont	497	41.5	35.7	40.2	40.9	93.2
Virginia	2,353	29.6	19.2	28.2	28.1	89.9
Washington	2,446	23.6	19.0	23.0	26.6	87.6
West Virginia	1,214	22.9	17.9	22.2	23.1	94.2
Wisconsin	2,981	31.0	26.5	30.3	34.4	88.4
Wyoming	156	18.3	21.8	18.8	26.2	95.5
Total	148,019	28.4	23.0	27.7	29.4	88.8

[1] Percent of fiscal year 1986 physicians/suppliers who also participated in fiscal year 1985.

Note: Physicians data includes M.D's, D.O's, and limited license practitioners.

Source: Health Care Financing Administration.

Reasonable Charge Reductions

The difference between the physician's billed charge and Medicare's approved or reasonable charge is referred to as the *reasonable charge reduction.* Reasonable charge reductions were made on 84.9 percent of unassigned claims in 1986. The amount of the reduction was 26.6 percent of billed charges or $33.15 per approved claim. Beneficiaries were liable for these reduction amounts. (Comparable figures were recorded for assigned claims though the beneficiaries were not liable for the reduction amounts.)

The impact of reasonable charge reductions on unassigned claims is spread unevenly across the population. Nationwide, 68 percent of net claims were paid on an assignment basis in 1985. The AMA center for Health Policy Research reported that for physicians who treated some Medicare patients in 1984, 83.9 percent accepted assignment for at least some patients, an increase over the 75.6 percent recorded in 1982. In 1984, 32.1 percent of physicians always accepted assignments and 16.1 percent never accepted assignment. Medicare program data shows significant variations in assignment rates by physician's specialty, place of service, and type of service. In 1983, the overall dollar assignment rate was 51.6 percent. However, of the 19 specialties that accounted for at least 1 percent of Medicare approved charges, 4 had rates of less than 45 percent (an-

esthesiology, otolargyngalogy, ophthalmology, and general practice). Assignment rates were higher for inpatient physicians services (54.7 percent) than services furnished in physicians offices (40.4 percent). The rates for medical care services (51.8 percent) was slightly higher than the rate for surgical services (50.1 percent).

TABLE 7.—REASONABLE CHARGE REDUCTIONS FOR MEDICARE PART B (EXCLUDES CLAIMS FROM HOSPITAL-BASED PHYSICIANS AND GROUP-PRACTICE PREPAYMENT PLANS) FOR ASSIGNED AND NOT ASSIGNED CLAIMS, FISCAL YEARS 1975–1986

	1975	1976	1977	1978	1979	1980	1981 [1]	1982 [1]	1983 [2]	1984	1985	1986
Percentage of claims reduced:												
Assigned	68.3	73.1	72.8	73.4	75.8	80.0	82.7	83.1	82.4	80.3	81.7	82.5
Not assigned	75.6	78.4	77.1	77.2	79.9	83.7	85.7	85.6	83.9	83.1	84.6	84.9
Percentage reduction in charges for covered services:												
Assigned	16.4	19.0	19.4	19.8	20.8	22.5	23.9	24.3	23.8	24.7	27.0	28.4
Not assigned	16.6	18.8	19.1	19.1	20.3	22.3	23.7	24.1	23.1	23.6	25.6	26.6
Amount reduced per approved claim:												
Assigned	$11.13	$13.74	$14.93	$16.11	$18.34	$21.81	$25.84	$29.32	$31.20	$32.62	$33.19	$36.43
Not assigned	$13.45	$15.75	$16.53	$16.76	$18.64	$21.96	$25.13	$28.10	$28.48	$29.69	$33.12	$33.15

[1] Data excludes Texas Blue Shield for July–September 1981.
[2] Data excludes Texas Blue Shield for October–December 1981.
[3] These data are slightly understated due to underreporting by Equitable.

Source: Department of Health and Human Services, Health Care Financing Administration.

Distribution of Physician Services

Tables 8–12 show the distribution of "reasonable charges" or allowed amounts under the CPR system for calendar year 1984 by various categories of services. The figures are tabulations from the 1984 Part B Medicare Annual Data Procedure file, which is a summary of all claims filed with the 56 Medicare carriers and the carriers for Railroad Retirement beneficiaries.

The totals shown will differ from total SMI outlay figures for 1984 shown in the budget for several reasons:

The amounts shown in these tables are allowed amounts, rather than reimbursements—that is, they include both Medicare's and the enrollee's share of reasonable charges.

The amounts shown are for services rendered during calendar year 1984; budget figures are for payments made during the year (sometimes calendar and sometimes fiscal year) regardless of when the services were rendered.

The amounts shown are only for services reimbursed by carriers under the CPR system; hence, they do not include Part B payments to hospital outpatient departments or to risk-based prepaid medical plans.

Further, the amounts shown underestimate what they are supposed to represent by a small amount because some claims for services rendered in 1984 had not been processed by carriers at the time the 1984 files were submitted to HCFA, and because some claims recorded had to be eliminated due to recording errors.

Table 8 illustrates that in 1984, 85 percent of allowed amounts under the CPR system were for physicians' services, and another 4 percent were for the services of limited license practitioners—psychologists, podiatrists, optometrists, audiologists, chiropractors, dentists, and physical therapists. Less than 2 percent went to independent laboratories in 1984, while nearly 10 percent went to suppliers of medical equipment, prosthetics, and ambulance services.

About 50 percent of all CPR allowed amounts were for hospital inpatient services, and nearly 60 percent of allowed amounts for physicians' services were inpatient. The share of physicians' services that are inpatient has dropped in recent years, from nearly 64 percent in 1981, while the share of services provided in hospital outpatient departments or ambulatory surgicenters has increased—from 4.7 percent in 1981 to 8.6 percent in 1984.

Table 9 shows the distribution of spending for physicians' services by specialty. (It excludes limited license practitioners, labs, and suppliers.) In 1984, generalists accounted for nearly 35 percent of spending, nonsurgical specialists for 14 percent, and surgical specialists for 36 percent. Radiologists, anesthesiologists, and pathologists (RAPs) together accounted for 14 percent of allowed amounts, although they accounted for a higher share of submitted charges (15.5 percent). This disparity may be due to the difficulty carriers have had in developing appropriate fee screens for hospital-based physicians, following elimination of the hospital-physician combined-billing option as of October 1983. Osteopathic physicians accounted for less than 1 percent of total allowed amounts for physicians' services.

The major physician specialties treating the Medicare population, in descending order of importance as measured by total allowed amounts, were general internists (19 percent of allowed amounts), ophthalmologists (11 percent), general surgeons (9 percent), radiologists (8 percent), and general practitioners and cardiologists (each about 6 percent).

The share of services provided on an inpatient basis varied by specialty, generally increasing with specialization. About 48 percent of the services of generalists were inpatient in 1984. The inpatient share was 60 percent for nonsurgical specialists and nearly 67 percent for surgical specialists.

Table 10 shows the distribution of spending for physicians' services by type of service. About 36 percent of spending was for medical care (nonsurgical) in 1984. About 41 percent of spending was for surgical procedures in total, adding together the amounts for surgeons, assistant surgeons, and anesthesiologists. About 7 percent was for diagnostic laboratory tests, which would include not only blood chemistry analysis and urinalysis, but also tests such as EKGs. More than 10 percent of spending was for radiology, and nearly 4 percent was for consultations.

Table 11 lists the top 20 individual services, ranked by total allowed amounts on claims submitted by selected physicians for 1984. Certain physician specialties were excluded when recorded fees were unreliable for any reason. The following groups were excluded: unidentified physicians billing from multispecialty groups, radiologists, anesthesiologists, pathologists, psychiatrists, pediatricians, and osteopaths. The most important exclusion is amounts for the services of anesthesiologists, since there would typically be a charge for anesthesiology for the surgical procedures included in Table 13. The amounts for surgical procedures include claims by both the primary surgeon and any assistant surgeons, but not the amounts for anesthesiologists.

The top 20 services (out of more than 7,000) accounted for 35 percent of all spending for all physicians' services in 1984. Cataract extraction with implantation of an intraocular lens was the top-ranked procedure, accounting by itself for more than 5 percent of total allowed amounts for physicians' services. Other surgical procedures in the top 20 included transurethral resections of the prostate (TURP), hip replacement or arthroplasty, coronary artery bypass surgery, thromboendarterectomy, and repair of a femoral fracture. The remaining services in the top 20 were either visits, consultations, or EKGs.

Table 12 presents total allowed amounts for selected groups of generic services, and shows the percent of total allowed amounts for all physicians' services accounted for by each group. As in Table 11, certain physicians' services—most notably for anesthesiologists—are not included in the allowed amounts for each service group. No attempt was made to define and rank all possible service groups, so that there may be other important service groups that do not appear in the table. For example, diagnostic radiology accounts for more than 9 percent of allowed amounts for physicians' services (from Table 10), but radiological services do not appear in Table 12 because radiologists were one of the specialties eliminated before calculating allowed amounts by service code.

The 21 service groups shown in Table 12 accounted for more than 46 percent of all allowed amounts for all physicians' services in 1984. The single most costly group was for hospital visits (accounting for nearly 14 percent of total allowed amounts for physicians' services), followed by office visits (11 percent). Cataract surgery of all types accounted for 6.5 percent of total allowed amounts for physicians' services, compared to 5.2 percent for the single most common cataract procedure shown in Table 13. EKGs accounted for 2.6 percent of total allowed amounts when all codes for the procedure are considered, compared to only 1.6 percent of allowed amounts accounted for by the single most common EKG code billed.

TABLE 8.—ALLOWED AMOUNTS FOR CPR CLAIMS, BY TYPE OF PROVIDER, 1984

Type of provider	Allowed amounts (millions)	Percent of total	Percent inpatient
Physicians	$17,326.8	85.0	59.0
Limited license practitioners [1]	797.8	3.9	10.2
Laboratories	362.7	1.8	1.0
Medical suppliers [2]	1,896.8	9.3	.8
All providers [3]	20,384.0	100.0	50.6

[1] Includes psychology, podiatry, optometry, audiology, chiropractice, dentistry, and physical therapy.
[2] Includes suppliers of medical equipment prosthetics, and ambulance services.
[3] Total does not include charges for hospital outpatient department facility fees or for risk-based prepaid medical plans since these are not reimbursed under the CPR system.

Source: CBO tabulations from 1984 pt. B medicare annual data procedure file.

TABLE 9.—ALLOWED AMOUNTS FOR PHYSICIANS' SERVICES, BY PHYSICIAN SPECIALTY, 1984

Specialty	Allowed amounts (millions)	Percent of total	Percent inpatient
Generalists:			
General practice	$1,070.7	6.2	36.3
Family practice	678.3	3.9	38.5
Internal medicine	3,215.5	18.6	51.9
Pediatrics	14.2	.1	34.5
Clinics	1,034.0	6.0	52.9
All generalists	6,012.7	34.7	47.7
Nonsurgical specialists:			
Allergy	86.0	.5	54.2
Cardiology	1,020.4	5.9	66.8
Dermatology	229.6	1.3	3.7
Gastroenterology	274.2	1.6	66.5
Neurology	223.9	1.3	64.8
Psychiatry	225.2	1.3	69.3
Physical medicine	57.5	.3	64.9
Pulmonary disease	196.2	1.1	78.6
Geriatrics	1.4	(1)	42.9
Nephrology	162.0	.9	51.9
All nonsurgical specialists	2,476.4	14.3	60.4
Surgical specialists:			
General surgery	1,507.7	8.7	81.5
Otolaryngology	193.2	1.1	41.9
Neurosurgery	198.3	1.1	85.6
Gynecology	133.4	.8	63.9
Ophthalmology	1,936.6	11.2	42.0
Orthopedic surgery	943.4	5.4	73.6
Plastic surgery	79.8	.5	54.1
Colon and rectal surgery	30.5	.2	57.7
Thoracic surgery	618.9	3.6	92.5
Urology	626.2	3.6	74.6
Hand surgery	3.4	(1)	61.8
All surgical specialists	6,271.4	36.2	66.6
Radiology	1,438.9	8.3	51.0
Anesthesiology	833.3	4.8	93.4
Pathology	164.3	.9	72.2
Osteopathy	129.8	.7	32.8
All physicians	17,326.8	100.0	59.0

[1] Less than 0.05 percent.

Source: CBO tabulations from 1984 pt. B medicare annual data procedure file.

TABLE 10.—ALLOWED AMOUNTS FOR PHYSICIANS' SERVICES, BY TYPE OF SERVICE, 1984

Type of service	Allowed amounts (millions)	Percent of total	Percent inpatient
Medical care	$6,315.3	36.4	49.3
Surgery	5,888.1	34.0	75.9
Assistance at surgery	314.8	1.8	89.2
Anesthesia	840.3	4.8	94.2
Diagnostic laboratory tests	1,240.8	7.2	26.6
Diagnostic radiology	1,578.5	9.1	44.3
Therapeutic radiology	235.1	1.4	18.5
Consultations [1]	621.6	3.6	77.7
Other [2]	292.3	1.7	2.8
All services	17,326.8	100.0	59.0

[1] Includes first and second opinions for surgery.
[2] Includes treatment for renal patients, pneumococcal vaccine, and medical supplies, among other things.

Source: CBO tabulations from 1984 pt. B medicare annual data procedure life.

TABLE 11.—THE TOP 20 SERVICES BILLED BY PHYSICIANS UNDER MEDICARE, 1984

Service code and description	Allowed amounts (millions) [1]	Percent of total [2]
Top 20 services:		
66980—Cataract extraction and IOL	$894.4	5.2
90250—Hospital visit, limited	652.5	3.8
90260—Hospital visit, intermediate	631.0	3.6
90060—Office visit, intermediate	593.2	3.4
90050—Office visit, limited	502.8	2.9
90220—Initial hospital visit, comprehensive	329.7	1.9
90240—Hospital visit, brief	293.4	1.7
90620—Consultation, comprehensive	289.8	1.7
52601—TURP	237.2	1.4
90040—Office visit, brief	221.7	1.3
93000—EKG (12 leads)	217.1	1.3
90270—Hospital visit, extended	182.2	1.1
90070—Office visit, extended	145.4	.8
27130—Hip replacement	135.6	.8
90020—Office visit, comprehensive, new patient	127.0	.7
90080—Office visit, comprehensive	127.0	.7
33512—Cornary artery bypass (3)	124.6	.7
35301—Thromboendarterectomy	104.2	.6
27244—Femoral fracture	104.1	.6
90215—Initial hospital visit, intermediate	102.5	.6
Sum	6,015.3	34.7

[1] Amounts for surgical procedures include fees for primary and assistant surgeons, but not for anesthesiologists. Allowed amounts for services in carrier regions that were using HCPCS were inflated to account for service totals in the 7 carrier regions that were not using HCPCS in 1984.
[2] The total allowed amount for all physicians' services in all carrier regions in 1984 was $17,326.8 million.

Source: CBO tabulation from 1984 medicare annual data procedure file.

TABLE 12.—ALLOWED AMOUNTS FOR SELECTED GROUPS OF PHYSICIANS' SERVICES, 1984

Service group	Allowed amounts (millions) [1]	Percent of total [2]
Hospital visits	$2,372.7	13.7
Office visits	1,938.6	11.2
Cataract surgery	1,126.2	6.5
EKG's	453.3	2.6
Transurethral surgery	340.3	2.0
Coronary artery bypass	308.9	1.8
Hip arthroplasty	192.0	1.1
Cardiac catheterization	166.0	1.0
Colonoscopy	163.7	.9
Hemodialysis/capd	147.5	.9
Thromboendarterectomy	126.7	.7
Knee arthroplasty	110.3	.6
Pacemaker implant/removal	109.6	.6
Vein bypass	102.5	.6
Emergency room visits	94.7	.5
SNF visits	87.2	.5
Nursing home visits	81.4	.5
Home visits	43.5	.3
Prostatectomy	25.4	.1
EEG's	18.1	.1
Pacemaker tests	16.2	.1
Sum	8,024.6	46.3

[1] Amounts for surgical procedures include fees for primary and assistant surgeons, but not for anesthesiologists. Allowed amounts for services in carrier regions that were using HCPCS were inflated to account for service totals in the seven carrier regions that were not using HCPCS in 1984.

[2] The total allowed amount for all physicians' services in all carrier regions in 1984 was $17,326.8 million.

Source: CBO tabulation from 1984 medicare annual data procedure file.

APPENDIX G. EXPLANATION OF MEDICAID PROGRAM AND INTERACTION WITH AFDC, SSI, AND MEDICARE PROGRAMS

Medicaid

Medicaid, authorized under title XIX of the Social Security Act, is a Federal-State matching program providing medical assistance for low-income persons who are aged, blind, disabled, or members of families with dependent children. Within Federal guidelines, each State designs and administers its own program. Thus there is substantial variation among the States in terms of persons covered, types, and scope of benefits offered, and amounts of payments for services.

Medicaid eligibility is directly linked to eligibility under programs within the jurisdiction of the Committee on Ways and Means, namely AFDC and SSI. Further, some poor aged persons are covered under both the Medicare and Medicaid programs.

Eligibility

Eligibility for Medicaid is linked to actual or potential receipt of cash assistance under the federally assisted Aid to Families With Dependent Children (AFDC) program and the Federal Supplemental Security Income (SSI) program for the aged, blind, and disabled; there are two classes of eligibility under medicaid: categorically needy and medically needy.

Categorically Needy

All States[1] cover the categorically needy under their Medicaid programs. In general, these are persons receiving assistance under AFDC or SSI. States have the option of limiting Medicaid coverage of SSI recipients by requiring them to meet any more restrictive eligibility criterion that was in effect on January 1, 1972 (before implementation of SSI). States choosing the more restrictive criteria must allow applicants to deduct medical expenses from income in determining eligibility. Fourteen States currently employ more restrictive criteria.

These States are:

Connecticut	Missouri	Ohio
Hawaii	Nebraska	Oklahoma
Illinois	New Hampshire	Utah
Indiana	North Carolina	Virginia
Minnesota	North Dakota	

States may also cover additional persons as categorically needy; these include persons receiving State supplement SSI payments

[1] Arizona does not operate a traditional Medicaid Program. Beginning October 1, 1982, it began implementation of a demonstration project under which a specified set of services are provided to the indigent primarily on a prepaid basis.

(SSP) or persons who would be eligible for cash assistance except that they are residents in medical institutions (such as skilled nursing facilities).

States must extend Medicaid eligibility to aged, blind, and disabled persons who were eligible for Medicaid in December 1973 as long as they meet the 1973 criteria; persons receiving mandatory State supplementary payments; persons who would be eligible for cash aid except for a State barrier disallowed by Medicaid law; and persons actually receiving SSI and/or SSP payments who lose their eligibility for SSI or SSP solely because of a cost-of-living social security increase provided they would otherwise still be eligible for such aid. Medicaid coverage must also be extended for 4 additional months to certain families whose AFDC cash assistance has been terminated provided they had received AFDC for at least 3 of the preceding 6 months; this extension applies to families whose AFDC coverage has been terminated due to increased income from or hours of employment.

Automatic Medicaid coverage for poor families is generally linked to the receipt of AFDC cash assistance, thereby restricting coverage for certain persons. This occurs in part because AFDC assistance is available only to families where one parent is absent, incapacitated, or in certain States, unemployed. To receive AFDC, a family must also meet a cash assistance standard established by each State.

Despite these restrictions, the law requires States to cover specified groups of persons even though they are not actually receiving cash payments under the AFDC program. Effective October 1, 1984, States are required to provide coverage to the following groups of persons meeting AFDC income and resources requirements:

—First time pregnant women from the time of medical verification of pregnancy;
—Pregnant women in two-parent families from the medical verification of pregnancy;
—All children born on or after October 1, 1983, up to age 5; and
—Children born to women who are eligible for and receiving Medicaid at the time of the child's birth.

States are also required to extend Medicaid coverage to families who lose their eligibility for AFDC and therefore Medicaid because the disregard provision of the AFDC program can no longer be applied to them. This AFDC provision requires States, for purposes of calculating AFDC benefits during the first 4 months of a job, to disregard one-third of monthly earnings that remain after deduction of the first $30 in monthly earnings, a standard allowance, and child care costs up to a specified limit. States are now required to provide 9 months of Medicaid coverage (and may at their option extend coverage for an additional 6 months) to families who lose their AFDC eligibility because of the expiration of the one-third disregard.

States may also extend coverage to additional population groups. A State may extend coverage to two-parent families where one parent is unemployed (even if such families are ineligible for AFDC in the State). States are required to extend coverage to all children under age 5 born on or after October 1, 1983, provided they meet the AFDC cash assistance standards. States may also cover all or

specified categories of children under age 18 (or, at State option, under age 19, age 20, or age 21), providing they meet the AFDC cash assistance standards.

Medically Needy

States may also cover the medically needy under their Medicaid programs. These are persons whose income is slightly in excess of the standards for cash assistance, provided that: (1) they are aged, blind, disabled, or members of families with dependent children, and (2) their income (after deducting incurred medical expenses) falls below the State standard. As of December 1, 1986, 38 States and jurisdictions provided medically needy coverage. These States are:

Arkansas
California
Connecticut
Washington, D.C.
Georgia (limited program)
Hawaii
Illinois
Iowa (limited program)
Kansas
Kentucky
Louisiana
Maine
Maryland
Massachusetts
Michigan
Minnesota
Montana
Nebraska
New Hampshire
New York
North Carolina
North Dakota
Northern Mariana Islands
Oklahoma
Oregon (limited program)
Pennsylvania
Puerto Rico
Rhode Island
South Carolina (limited program)
Tennessee (limited program)
Texas (limited program)
Utah
Vermont
Virgin Islands
Virginia
Washington
West Virginia
Wisconsin

Prior to enactment of Public Law 97-35, States having medically needy programs were required to offer comparable coverage to all four groups (that is, aged, blind, disabled, and members of families with children). Public Law 97-35 provided that, if a State offers medically needy coverage to any group, it must at a minimum provide ambulatory services to children and prenatal and delivery services for pregnant women.

Medicare-Medicaid Relationship

About 13 percent of aged and disabled Medicare enrollees are also covered by State Medicaid programs. While coverage under Medicare part A (hospital insurance) is automatic for most aged and certain disabled having insured status under the Social Security system, coverage under Medicare part B (supplementary medical insurance) requires the payment of a monthly premium. Most States make this payment for their Medicaid eligibles under a buy-in agreement. While States may buy-in to Medicare for both their cash-assistance and medically needy populations who are eligible for Medicare, Federal matching for premium payments is only available for the cash assistance group. If a State does not buy-in to part B coverage, it cannot receive Federal matching payments for services that would have been covered under Medicare if there had been a buy-in arrangement. Two States and two jurisdictions do not currently have a buy-in arrangement. These are: Louisiana, Wyoming, Puerto Rico, and Northern Mariana Islands.

Medicaid basically supplements Medicare for persons who are dually eligible. Medicare makes the primary payment while State

Medicaid expenditures are limited to payments for deductibles, coinsurance, and services not covered by Medicare.

New Optional Coverage Groups

Public Law 99–507 permits States to extend categorically needy Medicaid coverage to certain groups of individuals not previously eligible for such coverage. The first new optional categorically needy group is composed of pregnant women, infants up to age 1, and on an incremental basis, children up to age 5 with family incomes below a State-established level. The provision is effective April 1, 1987, for pregnant women and infants. Beginning in fiscal year 1988, States could increase the age level by one in each fiscal year until all children up to age 5 were included. States could not elect to cover one age group unless children in all younger groups were covered.

States could choose an income level between the AFDC level and 100 percent of the Federal poverty line. Imposition of resource standards is optional with the States. If one is established, it may not be more restrictive in the case of pregnant women than that under SSI. For infants and children, the State would not be able to apply a resource standard that is more restrictive than the AFDC standard. Newly eligible pregnant women would be only entitled to services related to pregnancy. For infants and children, coverage would be identical to that offered other categorically needy recipients. States opting to cover this new population group would be prohibited from lowering their AFDC standard as in effect on April 17, 1986.

Public Law 99–507 created a second optional categorically needy coverage group composed of the aged and disabled with family incomes up to a State-established level that does not exceed 100 percent of the Federal poverty line. The provision is effective July 1, 1987. A State electing this option would be required to cover some newly eligible pregnant women and infants.

States would be required to apply the SSI resource standards, or the higher standards applicable under its medically needy program to this population group. A State choosing this option would have to offer the benefit package available to other categorically needy recipients. Alternatively the State could cover just the Medicare cost-sharing charges for this population. The cost-sharing charges are Part A premiums, deductibles, and coinsurance and Part B premiums, deductibles, coinsurance. At State option, they also could cover premiums for enrollment of beneficiaries in Medicare-qualified HMOs.

Services

States are required to offer the following services to categorically needy recipients under their Medicaid programs: inpatient and outpatient hospital services; laboratory and X-ray services; skilled nursing facility (SNF) services for those over age 21; home health services for those entitled to SNF care; early and periodic screening, diagnosis, and treatment (EPSDT) for those under age 21; family planning services and supplies; physicians' services, and nurse-midwife services. They may also provide additional medical

services such as drugs, intermediate care facility (ICF) services, eyeglasses, inpatient psychiatric care for individuals under age 21 or over 65. States are permitted to establish limitations on the amount of care provided under a service category (such as limiting the number of days of covered hospital care or number of physicians' visits).

Federal law establishes the following requirements for coverage of the medically needy: (1) if a State provides medically needy coverage to any group it must provide ambulatory services to children and prenatal and delivery services for pregnant women; (2) if a State provides institutional services for any medically needy group it must also provide ambulatory services for this population group; and (3) if the State provides medically needy coverage for persons in intermediate care facilities for the mentally retarded (ICF/MRs) or institutions for mental diseases, it must offer to all groups covered in its medically needy program the same mix of institutional and noninstitutional services as required under prior law (that is, either all of the mandatory services or alternatively the care and services listed in 7 of the 18 paragraphs in the law defining covered services).

Financing

The Federal Government helps States share in the cost of Medicaid services by means of a variable matching formula which is adjusted annually. The matching rate, which is inversely related to a State's per capita income, can range from 50 percent to 83 percent though currently the highest rate is 78.50 percent. Federal matching for the territories is set at 50 percent with a maximum dollar limit placed on the amount each territory can receive. The Federal share of administrative costs is 50 percent for all States except for certain items where the authorized rate is higher.

COBRA provided that beginning in fiscal year 1987, the Federal Medical Assistance Percentage (FMAP) would be calculated on an annual rather than a biennial basis. Public Law 99-509 provided that the change to the annual calculation does not apply to State Medicaid programs, in fiscal year 1987 only, if the State would be adversely affected by the change. The following States are held harmless against a loss in Federal matching funds: Arizona, Florida, Georgia, Maine, Minnesota, Missouri, New Hamsphire, North Carolina, Ohio, Rhode Island, South Carolina, South Dakota, and Virginia.

Reimbursement Policy

States have considerable leeway in setting reimbursement levels for services. They are required to reimburse hospitals, skilled nursing facilities, and intermediate care facilities at rates that are reasonable and adequate to meet the cost which must be incurred by efficiently and economically operated facilities in order to meet applicable laws and quality and safety standards. In developing their payment rates for hospitals, States are required to take into account the situation of facilities which serve a disproportionate number of low-income patients. Further, hospital payment rates

must be sufficient to assure that Medicaid patients have reasonable access to services of adequate quality.

Practitioners and providers are required to accept payments under the program as payment in full for covered services except where nominal cost-sharing charges may be required. States may generally impose such charges with certain exceptions. They are precluded from imposing such charges on services for children under 18, services related to pregnancy, family planning or emergency services, HMO services for the categorically needy, and services provided to SNF or ICF inpatients who are required to spend all of their income for medical care except for a personal needs allowance.

Administration

Medicaid is a State-administered program. At the Federal level, the Health Care Financing Administration (HCFA) of the Department of Health and Human Services is responsible for overseeing State operations.

Federal law requires that a single State agency be charged with administration of the Medicaid program. Generally, that agency is either the State welfare agency, the State health agency, or the umbrella human resources agency. The single State agency may contract with other State entities to conduct some program functions. Further, States may process claims for reimbursement themselves or contract with fiscal agents or health insuring agencies to process these claims.

Legislative Changes in 99th Congress

The Congress enacted two reconciliation measures in the 99th Congress; both included amendments to the Medicaid Program.

The following is a summary of the major changes enacted in COBRA.

1. *Services for pregnant women.*—The law requires States to provide Medicaid coverage for pregnant women in two-parent families that meet AFDC income and resource standards even when the principal breadwinner is employed. Post-partum care for this population group is also required.

2. *Optional coverage of children.*—DEFRA requires States to phase-in coverage of all poor children under age 5. The law permits States to cover and receive Federal matching funds for such children immediately.

3. *Medicaid qualifying trusts.*—The law specifies that for purposes of Medicaid eligibility, the distributions from certain Medicaid qualifying trusts would be considered available to the individual who established the trust whether or not the distributions are actually made.

4. *Optional hospice benefits.*—The law permits States to cover hospice care (similar to that provided under Medicare) as an optional Medicaid service. Payment would be made by the hospice for room and board in a SNF or an ICF for patients in such facilities who elected hospice coverage.

5. *Optional targeted case management services.*—Case management is a system which involves the location, coordination, and

monitoring of a group of services by a single individual or entity. The law includes case management services as an optional Medicaid service and permits States to target such services to specific groups and/or specific areas in the State. Beneficiaries could not be locked-in to receiving services from designated providers.

6. *Home and community based services waiver.*—The law makes several modifications to the home and community-based services waiver provisions. It (a) permits ventilator dependent individuals who receive inpatient hospital services to be eligible for home and community-based services; (b) allows States to establish higher maintenance needs allowances for persons covered under the waiver; (c) defines habilitation services as services designed to assist individuals to acquire, retain and improve self-help skills necessary for community settings, including prevocational educational and supported employment; (d) prohibits the Secretary from imposing limits on Federal matching payments for these services based on a State's estimated expenditures for such care; (e) permits a State to use only the costs associated with physically disabled patients in SNFs and ICFs in estimating the average per capita expenditures for this group; (f) requires the extension for a period from 1–5 years of any waiver that expires during the 12-month period beginning September 30, 1985, if requested by the State; (g) requires the Secretary to renew waivers for 5-year periods, beginning September 30, 1986; and (h) provides that under a waiver an individual who becomes ineligible for services or dies may be replaced by another individual.

7. *Third-party liability collections.*—Medicaid is intended to be the payer of last resort. Other available sources, including the legal liability of other third parties to pay, must be used before Medicaid begins payment. The law requires States to improve their third-party collection efforts.

8. *Modify revaluation of assets provision.*—The law provides that when a nursing home is sold, the owner would be permitted to revalue the asset.

The following is a summary of the major changes enacted in Public Law 99–509.

1. *Optional coverage of pregnant women and infants.*—The law creates a new optional categorically needy group composed of pregnant women, infants up to age 1, and on an incremental basis, children up to age 5 with family incomes below a State-established level. States could choose an income level between the AFDC level and 100 percent of the Federal poverty line. Imposition of resource standards is optional with the States. The provision is effective April 1, 1987, for pregnant women and infants. Beginning in fiscal year 1988, States could increase the age level by one in each fiscal year until all children up to age 5 were included. States could not elect to cover one age group unless children in all younger groups were covered.

2. *Optional coverage of elderly and disabled poor.*—The law creates a new optional categorically needy coverage group composed of the aged and disabled with family incomes up to a State-established level that does not exceed 100 percent of the Federal poverty line. A State choosing this option would have to offer the benefit package available to other categorically needy recipients. As an al-

ternative, States could cover just the Medicare cost-sharing expenses for this population group. A State electing expanded coverage of the aged and disabled would be required to cover some newly eligible pregnant women and infants as described in item 1. The optional coverage is effective July 1, 1987.

3. *Medicaid eligibility for qualified severely impaired individuals.*—The law requires States to continue Medicaid coverage for disabled persons with severe impairments who have lost their eligibility for cash assistance because of their earnings from work. A qualified severely impaired individual is one: who is under age 65; who in the month preceding the first month this provision applies received cash assistance benefits or special benefits under section 1619 of the Social Security Act; and who received Medicaid benefits. Further such individual: (a) must continue to be blind or have a disabling physical and mental impairment; (b) must meet, except for earnings, all other requirements for SSI eligibility; (c) would be seriously inhibited from continuing work in the absence of Medicaid coverage; and (d) does not have earnings that would be sufficient to provide a reasonable equivalent of the Medicaid, SSI, or publicly funded attendant care benefits that would be available if he did not work. (Public Law 99-643, the SSI Improvements Amendments of 1986, revises and extends on a permanent basis the authority contained in section 1619 of the Social Security Act.)

4. *Homeless.*—The law clarifies that States or localities are prohibited from imposing any residence requirement which excludes from Medicaid any otherwise qualified individual who resides in the State, regardless of whether the residence is maintained permanently or at a fixed address.

5. *Payments for aliens.*—The law specifies that Federal matching payments are not available for State expenditures for aliens who are not lawfully admitted for permanent residence or permanently residing in the United States under color of law. An exception is made where the individual is otherwise eligible for Medicaid and has an emergency medical condition.

6. *Presumption of eligibility for pregnant women.*—The law permits States to make ambulatory prenatal care available to pregnant women for a presumptive period of eligibility. A presumptive period of eligibility is defined as beginning on the date on which a qualified provider determines on the basis of preliminary information that the family income falls below the applicable Medicaid standard. The period ends on the earlier of: (a) the day on which a determination is made on the application by the state agency; (b) 45 days after the provider makes the determination; or (c) 14 days after the preliminary determination if the woman does not file an application.

7. *Respirator care for ventilator-dependent individuals.*—The law permits states to cover respiratory care services in the home for individuals who are: (a) medically dependent on a ventilator for life support at least 6 hours a day; (b) who have been so dependent at least 30 days as inpatients; (c) have adequate social support services at home; (d) who wish to be cared for at home; and (e) who in the absence of such care, would require respiratory care on an inpatient basis for which Medicaid would pay. Respiratory care services are defined as those services, not otherwise included within

covered services under a State's Medicaid plan, provided on a part-time basis in the home of an individual by a respiratory therapist or other person skilled in respiratory therapy.

8. *Permitting States to offer home and community-based services to low-income individuals at risk of hospital care.*—The law allows States, subject to approval of the Secretary, to provide services under a home and community-based services waiver to individuals who, but for the provision of such services, would otherwise require the level of care provided in a hosptial, SNF, or ICF and such services would be paid for by Medicaid. States would be permitted to target their waivers to individuals at risk of hospital care, as defined by illness or diagnosis (e.g., AIDS, or AIDS-related condition) or by condition (e.g., chronic mental illness, ventilator dependency).

9. *Hold harmless.*—COBRA provided that beginning in fiscal year 1987, the Federal Medical Assistance Percentage (FMAP) would be calculated on an annual rather than a biennial basis. The bill would provide that the change to the annual calculation would not apply to State Medicaid programs in fiscal year 1987 only, if the State would be adversely affected by the change.

10. *Independent quality review of Health Maintenance Organizations (HMOs).*—The law requires States to provide for an annual independent external review of the quality of services provided or arranged by each HMO or other prepaid plan with which the State has entered a risk-based contract.

11. *State utilization review systems.*—The law prohibits the Secretary from issuing regulations requiring States to operate second surgical opinon programs for inpatient hospital preadmission review programs under their Medicaid plans. The prohibition is in effect until 180 days after submission of a report to Congress on the experience under existing second opinion programs.

12. *Prohibition of certain physician incentive plans.*—The law provides for a civil money penalty of $2,000 per patient if a hospital or an entity delivering services on a risk basis (including HMOs) knowingly makes a payment, directly or indirectly, to a physician as an inducement to reduce or limit services to Medicaid patients who are under the direct care of the physician. A physician who accepted such a payment could be liable for a civil money penalty of $2,000 per patient. The Secretary is required to report to the Congress by January 1, 1988, on the incentive arrangements offered by HMOs and competitive medical plans. The provision is effective 6 months after enactment for hospitals and April 1, 1989, for HMOs and other entities contracting on a risk basis.

Program Data

Federal Medicaid outlays are estimated (in the absence of legislative changes) at $26.7 billion in fiscal year 1987, a 6.8 percent increase over the $25.0 billion estimated for fiscal year 1986.

The primary factor contributing to program increases has been inflation, particularly inflation in medical care prices. However, in recent years States have taken significant steps to slow program growth. Of particular importance are new State initiatives and experimentation in the organization, financing, and reimbursement of services.

In examing tables 1-6, the following should be noted:

1. This information profiles the Medicaid program as it existed in March 1986.

2. Detailed information as each State program is available in the Health Care Financing administration publication, "Analysis of State Medicaid Program Characteristics, 1986."

Source: HCFA, Office of the Actuary, Division of Medicaid Cost Estimates, Medicaid Statistics Branch.

TABLE 1.—HISTORY OF MEDICAID PROGRAM COSTS

Fiscal year	Total		Federal		State	
	Dollars (in millions)	Percent increase	Dollars (in millions)	Percent increase	Dollars (in millions)	Percent increase
1966 [1]	$1,658	.....	$789	.....	$869	.....
1967 [1]	2,368	42.9	1,209	53.2	1,159	33.5
1968 [1]	3,659	55.6	1,837	51.9	1,849	59.5
1969 [1]	4,166	13.0	2,276	23.9	1,890	2.2
1970 [1]	4,852	16.5	2,617	15.0	2,235	18.3
1971	6,176	27.3	3,374	28.9	2,802	25.3
1972 [2]	8,434	36.6	4,361	29.2	4,074	45.4
1973	9,111	8.0	4,998	14.6	4,113	1.0
1974	10,229	12.3	5,833	16.7	4,396	6.9
1975	12,637	23.5	7,060	21.0	5,578	26.9
1976	14,644	15.9	8,312	17.7	6,332	13.5
TQ [3]	4,106	NA	2,354	NA	1,752	NA
1977	17,103	[4] 16.8	9,713	[4] 16.9	7,389	[4] 16.7
1978	18,949	10.8	10.680	10.0	8,269	11.9
1979	21,755	14.8	12,267	14.9	9,489	14.8
1980	25,781	18.5	14,550	18.6	11,231	18.4
1981	30,377	17.8	17,074	17.3	13,303	18.4
1982	32,446	6.8	17,514	2.6	14,931	12.2
1983	34,956	7.7	18,985	8.4	15,971	7.0
1984	37,631	7.7	20,094	5.8	17,537	9.8

1985[5]	41,150	10.9	[6] 22,655	12.7	[6] 18,495	5.5
1986 [5]	44,725	8.7	24,995	10.3	19,730	6.7
1987 (current law estimate) [5]	47,610	6.5	26,700	6.8	20,910	6.0
1988 (current law estimate)	50,575	6.2	28,120	5.3	22,455	7.4

[1] Includes related programs which are not separately identified though for each successive year a larger portion of the total represents Medicaid expenditures. As of Jan. 1, 1970, Federal matching was only available under Medicaid.

[2] Intermediate care facilities (ICFs) transferred from the cash assistance programs to Medicaid effective January 1, 1972; data for prior periods do not include these costs.

[3] Transitional quarter (beginning of Federal fiscal year moved from July 1 to Oct. 1).

[4] Represents increase over fiscal year 1976, i.e., five calendar quarters.

[5] Includes transfer of function of State fraud control units to Medicaid from Office of Inspector General.

[6] Temporary reductions in Federal payments authorized for fiscal years 1982–84 were discontinued in fiscal year 1985.

Note: Totals may not add due to rounding.

Sources: "Budget of the U.S. Government" fiscal years 1969–87, and conversations with officials of Health Care Financing Administration.

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TABLE 2.—UNDUPLICATED NUMBER OF MEDICAID RECIPIENTS BY ELIGIBILITY CATEGORY, FISCAL YEARS 1972–88

[Number in thousands]

Fiscal year	Total	Aged 65 or over	Blindness	Permanent and total disability	Dependent children under age 21	Adults in families with dependent children	Other [1]
Ending June:							
1972	17,606	3,318	108	1,625	7,841	3,137	1,576
1973	19,622	3,496	101	1,804	8,659	4,066	1,495
1974	21,462	3,732	135	2,222	9,478	4,392	1,502
1975	22,007	3,615	109	2,355	9,598	4,529	1,800
1976	22,815	3,612	97	2,572	9,924	4,774	1,836
Ending September:							
1977 [2]	22,831	3,636	92	2,710	9,651	4,785	1,959
1978	21,965	3,376	82	2,636	9,376	4,643	1,852
1979	21,520	3,364	79	2,674	9,106	4,570	1,727
1980 [3]	21,605	3,440	92	2,819	9,333	4,877	
						ERR97	1,499
1981 [3]	21,980	3,367	86	2,993	9,581	5,187	1,364
1982 [3]	21,603	3,240	84	2,806	9,563	5,356	1,434
1983 [3]	21,554	3,371	77	2,844	9,535	5,592	1,129
1984 [3]	21,557	3,238	79	2,834	9,634	5,600	1,187
1985 [3]	21,808	3,061	80	2,936	9,752	5,518	1,214
1986 [3]	22,592	3,156	81	2,918	9,690	5,534	1,212
1987 (current law estimate) [3]	23,346	3,215	84	3,035	9,991	5,707	1,313
1988 (current law estimate) [3]	23,787	3,259	87	3,127	10,177	5,794	1,343

[1] This category is composed predominantly of children not meeting the definition of "dependent" children, i.e., "Ribicoff children."
[2] Fiscal year 1977 began in October 1976 and was the first year of the new Federal fiscal cycle. Before 1977, the fiscal year began in July.
[3] Beginning in fiscal year 1980, recipients' categories do not add to the unduplicated total due to the small number of recipients that are in more than one category during the year.

Sources: Social Security Bulletin, Annual Statistical Supplement, 1983, SSA Publication No. 13–11700. Fiscal years 1985–88 data from HCFA, unpublished tables.

TABLE 3.—TOTAL AND PER CAPITA MEDICAID PAYMENTS FOR CATEGORICALLY NEEDY AND MEDICALLY NEEDY, PRELIMINARY ESTIMATES, FISCAL YEAR 1985

	Amount (in millions)	Percent	Per capita amount
Categorically needy:			
Receiving cash payments	$19,316.2	51.5	1,174
Aged	3,510.0	9.4	2,111
Blind	173.2	0.5	2,439
Disabled	8,036.5	21.4	3,502
Children in AFDC families	3,639.8	9.7	446
Adults in AFDC families	3,956.8	10.5	914
Not receiving cash payments	7,832.2	20.9	3,001
Aged	4,628.7	12.3	6,868
Blind	39.6	0.1	6,600
Disabled	2,298.9	6.1	7,416
Children in AFDC families	307.4	0.8	398
Adults in AFDC families	246.0	0.7	456
Other title XIX recipients	311.6	0.8	959
Total, categorically needy	27,148.64	72.4	1,424
Medically needy:			
Aged	5,957.6	15.9	8,229
Blind	36.6	0.1	9,150
Disabled	2,867.4	7.6	8,637
Children in AFDC families	467.1	1.2	566
Adults in AFDC families	543.6	1.4	839
Other title XIX recipients	486.8	1.3	548
Total, medically needy	10,359.2	27.6	3,035
Total	37,507.6	100.0	1,720

Note: Totals may not add due to rounding. Based on data which include the territories.

Source: HCFA, Office of the Actuary, Division of Medicaid Cost Estimates, Medicaid Statistics Branch.

TABLE 4.—MEDICAID RECIPIENTS AND PAYMENTS BY BASIS OF ELIGIBILITY, PRELIMINARY ESTIMATES, FISCAL YEAR 1985

	Amount (in millions)	Percent of total	Recipients (in thousands)	Percent of total	Per capita payment
Aged	$14,096.3	37.6	3,061.4	14.0	$4,604.5
Blind	249.4	0.7	80.3	0.4	3,105.9
Disabled	13,202.8	35.2	2,936.4	13.5	4,496.3
Dependent children under 21	4,414.3	11.8	9,752.4	44.7	452.6
Adults in families with dependent children	4,746.4	12.7	5,517.5	25.3	860.2
Other	798.4	2.1	1,213.7	5.6	657.8
Total	37,507.6	100.0	21,808.3	100.0	1,719.9

[1] Total is unduplicated count of recipients. A small number of recipients are in more than one category during the year.

[2] The percent of recipients is based upon the unduplicated count.

Note: Totals may not add due to rounding. Based on data which includes the territories.

Source: HCFA, Office of the Actuary, Division of Medicaid Cost Estimates, Medicaid Statistics Branch.

TABLE 5.—MEDICAID PAYMENTS BY SERVICE CATEGORY, FISCAL YEAR 1985

	Amount (in millions)	Percent
Inpatient hospital	$10,645.1	28.4
General	(9,452.8)	(25.2)
Mental [1]	(1,192.3)	(3.2)
Skilled nursing facilities	5,072.5	13.5
Intermediate care facilities [1]	11,244.6	30.0
Facilities for mentally retarded [1]	(4,718.8)	(12.6)
Other [1]	(6,525.8)	(17.4)
Physician	2,345.6	6.3
Dental [1]	457.9	1.2
Other practitioner [1]	251.1	0.7
Outpatient hospital	1,789.1	4.8
Clinic [1]	714.1	1.9
Lab and X-ray	337.2	0.9
Home health	1,119.7	3.0
Prescribed drugs [1]	2,315.5	6.2
Family planning	195.2	0.5
Early and periodic screening	85.0	0.2
Rural health clinic	7.3	0.0
Other [2]	927.6	2.5
Total	37,507.6	100.0

[1] Optional services.

[2] Predominantly optional services.

[3] Less than 0.1.

Note: Totals may not add due to rounding. Based on data which include the territories.

Source: HCFA, Office of the Actuary, Division of Medicaid Cost Estimates, Medicaid Statistics Branch.

TABLE 6.—AVERAGE EXPENDITURE PER RECIPIENT FOR CATEGORICALLY NEEDY PERSONS WHO ARE ALSO RECEIVING AN SSI OR AFDC PAYMENT BY BASIS OF ELIGIBILITY, BY STATE, PRELIMINARY ESTIMATES, FISCAL YEAR 1985

State	Total	SSI aged	SSI blind	SSI disabled	AFDC child	AFDC adult
United States	1,200	2,111	2,451	3,569	454	946
All Jurisdictions	1,174	2,110	2,445	3,502	446	914
Alabama	799	814	1,249	1,665	296	697
Alaska	2,788	8.262	6,112	11,457	724	1,383
Arkansas	1,348	1,539	2,085	2,762	434	733
California	976	951	1,878	2,612	395	897
Colorado	1,773	2,753	16,189	6,130	369	759
Connecticut	889	1,581	3,123	3,069	520	1,119
Delaware	1,136	2,474	2,639	3,399	472	882
District of Columbia	2,343	7,624	4,577	7,087	679	1,758
Florida	1,098	1,267	1,539	2,488	415	975
Georgia	1,243	1,442	2,057	2,744	415	1,061
Hawaii	891	1,884	3,095	3,605	392	931
Idaho	700	1,131	1,124	1,900	418	925
Illinois	1,123	2,907	3,644	5,113	451	930
Indiana	1,385	3,765	3,643	6,079	571	1,401
Iowa	1,132	1,782	1,730	4,130	500	976
Kansas	1,157	2,340	2,142	4,294	402	820
Kentucky	1,040	1,212	1,765	2,481	354	816
Louisiana	1,345	1,772	2,487	3,581	466	1,098
Maine	1,009	1,754	1,535	2,900	377	820
Maryland	1,097	2,277	2,464	2,898	573	1,095

TABLE 6.—AVERAGE EXPENDITURE PER RECIPIENT FOR CATEGORICALLY NEEDY PERSONS WHO ARE ALSO RECEIVING AN SSI OR AFDC PAYMENT BY BASIS OF ELIGIBILITY, BY STATE, PRELIMINARY ESTIMATES, FISCAL YEAR 1985—Continued

State	Total	SSI aged	SSI blind	SSI disabled	AFDC child	AFDC adult
Massachusetts	1,702	2,399	2,162	5,090	575	1,117
Michigan	876	1,968	2,335	3,455	353	908
Minnesota	1,579	4,745	6,548	9,035	437	993
Mississippi	668	901	1,090	1,306	287	620
Missouri	641	1,203	1,379	1,753	429	709
Montana	1,325	2,890	2,412	4,041	383	1,052
Nebraska	1,269	3,172	4,445	4,346	461	872
Nevada	1,580	1,186	2,343	5,215	539	970
New Hampshire	1,129	914	4,502	4,439	310	557
New Jersey	1,260	2,878	2,625	4,075	469	1,086
New Mexico	1,335	1,481	3,984	3,523	484	1,127
New York	2,034	6,060	9,613	6,151	661	1,159
North Carolina	1,142	2,369	2,937	3,572	421	816
North Dakota	2,159	4,329	2,727	7,269	630	1,239
Ohio	1,109	2,958	2,501	4,300	589	1,026
Oklahoma	889	2,042	1,678	2,528	285	513
Oregon	841	2,729	2,237	2,427	313	897
Pennsylvania	1,045	2,772	1,605	3,332	390	757
Rhode Island	1,118	2,903	2,840	3,297	342	760
South Carolina	869	1,028	1,273	1,908	250	702
South Dakota	1,894	2,714	2,844	5,624	532	1,003
Tennessee	1,186	1,167	1,796	2,227	532	1,078

Texas	1,372	1,726	2,420	3,816	413	1,073
Utah	1,049	2,637	1,734	5,279	308	745
Vermont	1,320	1,982	1,693	4,307	339	797
Virginia	1,184	2,115	2,163	3,334	342	825
Washington	1,202	5,703	5,198	17,453	502	998
West Virginia	563	1,109	1,447	1,239	266	530
Wisconsin	1,045	1,774	4,440	4,090	407	677
Wyoming	901	2,232	651	2,517	428	799
Puerto Rico	86	0	277	96	96	72
Virgin Islands	319	726	284	745	166	519

Source: HCFA, Office of the Actuary, Division of Medicaid Cost Estimates, Medicaid Statistics Branch.

Section 5. Trade Adjustment Assistance

The trade adjustment assistance (TAA) programs were first established under the Trade Expansion Act of 1962 for the purpose of assisting in the special adjustment problems of workers and firms dislocated as a result of a Federal policy of reducing barriers to foreign trade. As a result of limited eligibility and usage of the programs, criteria and benefits were liberalized under title II of the Trade Act of 1974, Public Law 93-618. The Omnibus Budget Reconciliation Act of 1981 (OBRA), Public Law 97-35, reformed the program for workers as proposed by the Administration. The amendments, particularly in program eligibility and benefits, were intended to reduce program cost significantly and to shift its focus from income compensation for temporary layoffs to return to work through training and other adjustment measures for the long-term or permanently unemployed. The OBRA also made relatively minor modifications in the firm program. Most amendments became effective on October 1, 1981. Both programs were extended at that time for 1 year, to terminate on September 30, 1983.

Public Law 98-120 (H.R. 3813 as amended by the Senate), approved on October 12, 1983, extended the worker and firm TAA programs for 2 years until September 30, 1985. Sections 2671-2673 of the Deficit Reduction Act of 1984, Public Law 98-369, included three provisions (sections 3, 6, and 8 of H.R. 3391 as passed by the House on September 15, 1983) which amended the program for workers to increase the availability of worker training allowances and the level of job search and relocation benefits, and amended the program for firms to increase the availability of industrywide technical assistance.

The termination date of the worker and firm TAA programs was further extended under temporary legislation in the first session of the 99th Congress (Public Laws 99-107, 99-155, 99-181, and 99-189) until December 19, 1985. The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), Public Law 99-272 approved April 7, 1986, reauthorized the TAA programs for workers and firms for 6 years retroactively from December 19, 1985, until September 30, 1991, with amendments.

Trade Adjustment Assistance Program for Workers

Trade adjustment assistance for workers under sections 221 through 250 of the Trade Act of 1974, as amended, consists of trade readjustment allowances (TRA), employment services, training and extended TRA allowances while in training, and job search and relocation allowances for certified and otherwise qualified workers. The program is administered by the Employment and Training Administration (ETA) of the Department of Labor through State employment security agencies under cooperative agreements between

each State and the Secretary of Labor. ETA processes petitions and issues certifications or denials of petitions by groups of workers for eligibility to apply for TAA. The State agencies act as Federal agents in processing applications and determining individual worker eligibility for benefits, issuing payments, and providing re-employment services and training opportunities.

TABLE 1.—NUMBER OF PETITIONS INSTITUTED AND CERTIFIED AND ESTIMATED NUMBER OF WORKERS PETITIONING AND CERTIFIED FOR TRADE ADJUSTMENT ASSISTANCE, TOTAL AND BY INDUSTRY FROM APRIL 1975 THROUGH NOVEMBER 30, 1986

Year	Cases instituted		Cases certified		
	Petitions	Estimated workers	Petitions	Percent [1]	Estimated workers
1975	528	210,988	121	50	54,843
1976	1,014	218,541	430	45	143,578
1977	1,289	227,562	411	38	143,714
1978	1,732	171,315	854	42	164,416
1979	2,119	320,707	844	41	221,474
1980	5,347	1,027,214	935	29	585,378
1981	1,134	132,222	260	9	32,991
1982	1,030	170,036	254	20	20,004
1983	959	163,929	482	34	57,150
1984	504	42,902	336	52	15,326
1985	1,392	145,863	491	60	28,824
1986 (through November)	1,632	133,104	715	37	114,806
Total	18,680	2,964,383	6,133	34	1,582,504

[1] Estimated percent of petitioning workers covered by completed cases; figures are not precise but indicate the trend.

Certification requirements

A two-step process is involved in the determination of whether an individual worker will receive trade adjustment assistance: (1) certification by the Secretary of Labor of a petitioning group of workers in a particular firm as eligible to apply; and (2) approval by the State agency administering the program of the application for benefits of an individual worker covered by a certification.

The process begins by a group of three or more workers, their union, or authorized representative filing a petition with the ETA for group eligibility. To certify a petitioning group of workers as eligible to apply for adjustment assistance, the Secretary must determine that three conditions are met:

1. A significant number or proportion of the workers in the firm or subdivision of the firm have been or are threatened to be totally or partially laid off;
2. Sales and/or production of the firm or subdivision have decreased absolutely; and
3. Increased imports of articles like or directly competitive with articles produced by the firm or subdivision of the firm

have "contributed importantly" to both the layoffs and the decline in sales and/or production.

	Thousands
Total estimated number of workers certified	1,582
Industry:	
Automobiles	1,063
Electronics	337
Steel	259
Apparel	177
Footwear	89
Fabricated metal products	45
Textiles	30

Source: Department of Labor.

Eligibility requirements for trade readjustment allowances

In order to receive entitlement to a trade readjustment allowance for any week of unemployment, an individual worker covered by a certification must file an application with his State employment security office and meet the following eligibility requirements:

1. The worker's last total or partial layoff before application must have occurred not more than 1 year prior to the date of the petition, on or after the "impact date" (i.e., the date on which total or partial layoffs began or threatened to begin), within 2 years after the date the Secretary of Labor issued the certification covering the worker, and before the termination date (if any) of the certification; and

2. The worker was employed at least 26 of the 52 weeks preceding last layoff in adversely affected employment with a single firm or subdivision thereof at wages of $30 or more per week.

As amended in 1986, a week of employment includes the week in which layoff occurs and up to 7 weeks of employer-authorized vacation, sick, injury, maternity, or military leave, or service as a full-time union representative. Weeks of disability covered by workmen's compensation may also count toward the 26-week minimum.

In addition, the OBRA amended the program to include the following TRA eligibility limitations:

1. Under the program prior to October 1, 1981, TRA benefits were a supplement to state unemployment insurance and paid concurrently during weeks the worker was eligible for UI. A fundamental change under the current program makes TRA benefits a continuation of the UI program by requiring the worker to exhaust all rights to UI, including any extended benefits (EB) or Federal supplemental compensation (FSC), to which the worker is entitled in the most recent benefit period before becoming eligible for any TRA payments. The worker is also ineligible for TRA benefits for any subsequent week of en-

titlement to payment for any further UI or waiting period credit.

2. All TRA claimants in all States are subject to the provisions of the EB "suitable work" test under section 202(a)(3) of the Federal-State Extended Unemployment Compensation Act of 1970 after the end of their regular UI benefit period as a precondition for receiving any weeks of TRA payments. Workers are not disqualified for TRA benefits if in State-approved training prior to eligibility or for any form of TAA because of subsequently leaving employment which is not of a substantially equal or higher skill and wage level than previous employment.

3. Workers are entitled to TRA payments only for weeks of unemployment which begin more than 60 days after the filing date of the petition, i.e. after the statutory deadline for certification. Workers can be certified for layoffs occurring up to 1 year prior to the petition filing date in order to qualify for other TAA benefits, but can no longer receive TRA payments retroactively for weeks prior to the date certification is supposed to take place.

4. No TRA payment can be made for a UI waiting week.

5. As an incentive to early reemployment, the 1986 amendments require, as a prerequisite for receiving TRA payments, that workers be enrolled in or have completed a job search program approved by the Secretary of Labor in order to receive TRA payments, unless the Secretary has determined that no acceptable job search program is reasonably available.

As a further encouragement to reemployment, the Secretary of Labor may require all workers in a labor market area with certain economic characteristics either to accept training or to extend job search beyond their labor market area after their first 8 weeks of TRA eligibility if they have been approved for training.

Benefit levels and duration

TRA benefits prior to October 1, 1981, were 70 percent of the worker's former gross weekly wage not to exceed the average weekly manufacturing wage, reduced by the amount of his unemployment compensation entitlement, 50 percent of any part-time earnings, and certain training allowances paid under Federal law. Eligible workers could collect basic benefits for up to 52 weeks of unemployment during a maximum two-year period following layoff.

The following major changes under the OBRA, effective as of October 1, 1981, reduced program costs and were intended to remove reemployment disincentives associated with the previous high net wage replacement and the inequity in benefit amounts between import-impacted workers and workers laid off for other reasons:

1. The TRA weekly benefit amount is the same as, and a continuation of, the claimant's unemployment insurance weekly benefit amount during the most recent UI benefit period, reduced by any training allowance and disqualifying income deductible under UI law. This change has shifted the TRA benefit level from a uniform national standard to a State standard.

2. The total amount of basic TRA benefits payable to a worker is a maximum of 52 times the TRA allowance level for

a week of total unemployment minus the total amount of UI benefits payable in the worker's most recent benefit period (e.g., a worker receiving 39 weeks of UI regular and extended benefits could receive a maximum 13 weeks of TRA benefits). UI and TRA payments combined are limited to a maximum 52 weeks in all cases involving extended benefits. As amended in 1986, TRA basic benefits may be collected only during the 104-week period (compared to 52-week period previously) following the week in which the worker has exhausted all rights to regular unemployment compensation in the most recent benefit period.

3. Workers may receive up to 26 additional weeks of TRA benefits to assist in completing approved training, if the worker applies for the training program within 210 days after certification or layoff, whichever date is later. The additional benefits may be collected only during the 26-week period following the worker's last week of entitlement to basic TRA benefits. As amended in 1984, if training has not been approved until after the last week of entitlement to basic TRA, the 26-week collection period begins with the first week the worker enters training. Workers cannot receive a TRA payment for any week during which they receive on-the-job training.

TABLE 2.—TOTAL OUTLAYS FOR TRADE READJUSTMENT ALLOWANCES, NUMBER OF RECIPIENTS, AVERAGE WEEKLY PAYMENTS AND DURATION, FISCAL YEARS 1976 THROUGH 1986

Fiscal year	Total outlays (millions)	Total number of recipients (thousands)	Average weekly payment per recipient	Average week's duration
1975 (4th quarter)	$71	47	$58	26.0
1976 [1]	79	62	47	27.3
1977	148	111	57	23.4
1978	257	156	68	24.3
1979	256	132	70	27.4
1980	1,622	532	126	24.1
1981	1,440	281	140	36.5
1982	103	30	119	28.4
1983	37	30	120	10.1
1984	35	16	139	16.0
1985	43	20	133	15.1
1986	119	[2] 42	[2] 141	[2] 20.0
Total	4,210	[2] 1,459		

[1] Fiscal year 1976 is the first full year of experience under the program as amended by the Trade Act of 1974.

[2] Estimated.

Note: The above figures relate only to trade readjustment allowances; administrative expenses and outlays for employment services, training, and job search and relocation allowances are not included.

Source: Department of Labor.

Training and other employment services, job search and relocation allowances

Training and other employment services and job search and relocation allowances are available through State agencies to certified workers whether or not they have exhausted UI benefits and become eligible for TRA payments.

Employment services consist of counseling, vocational testing, job search and placement, and other supportive services, as appropriate.

Training, preferably on-the-job, shall (to the extent appropriated funds are available) be approved for a worker if the following five conditions are met: (1) there is no suitable employment available; (2) the worker would benefit from appropriate training; (3) there is a reasonable expectation of employment following training completion; (4) approved training is available from government agencies or private sources; and (5) the worker is qualified to undertake and complete such training. While training itself is not an entitlement, if training is approved, a worker is entitled to payment of the costs, unless they have been paid or are reimbursable under another Federal law. As a result, the Department of Labor prohibits State agencies from approving training if sufficient funds have not been appropriated and allocated to pay the costs. On-the-job training costs are payable only if such training is not at the expense of currently employed workers.

Supplemental assistance is available to defray reasonable transportation and subsistence expenses for separate maintenance when training is not within the worker's commuting distance, equal to the lesser of actual per diem expenses or 50 percent of the prevailing Federal per diem rate for subsistence and prevailing mileage rates under Federal regulations for travel expenses.

Job search allowances are available to certified workers who cannot obtain suitable employment within their commuting area, are totally laid off, and who apply within 1 year after certification or last total layoff, whichever is later, or within 6 months after concluding training. As amended in 1981 and 1984, the allowance for reimbursement is equal to 90 percent of necessary job search expenses, based on the same increased supplemental assistance rates described above, up to a maximum amount of $800. The 1986 amendments require the Secretary of Labor to reimburse workers for necessary expenses incurred to participate in an approved job search program.

Relocation allowances are available to certified workers totally laid off at time of relocation who have been able to obtain an offer of or actual suitable employment only outside their commuting area, who apply within 14 months after certification or last total layoff, whichever is later, or within 6 months after concluding training, and whose relocation takes place within 6 months after application or completion of training. As amended in 1981 and 1984, the allowance is equal to 90 percent of reasonable and necessary expenses for transporting the worker, family, and household effects, based on the same increased supplemental assistance rates described above, plus a lump sum payment of three times the worker's average weekly wage up to a maximum amount of $800.

TABLE 3.—TRAINING, JOB SEARCH, AND RELOCATION ALLOWANCES: TOTAL NUMBER OF WORKERS AND OUTLAYS, FISCAL YEARS 1976 THROUGH 1986

Fiscal year	Total number			Total outlays (millions)[1]		
	Entered training	Job searches	Relocations	Training	Job searches	Relocations
1975 (4th quarter)	463	158	44	.....		
1976	823	23	26	$2.7	([2])	([2])
1977	4,213	277	191	3.8	([2])	$0.2
1978	8,337	1,072	631	12.0	$0.2	.6
1979	4,458	1,181	855	12.0	.3	1.2
1980	[3] 9,475	931	629	5.2	.1	.7
1981	[3] 20,386	1,491	2,011	1.9	.3	2.0
1982	5,844	697	662	18.4	([4])	([4])
1983	11,299	696	3,269	33.0	([5])	([5])
1984	6,821	799	2,220	16.5	.2	2.3
1985	7,424	916	1,692	30.2	([2])	([2])
1986 (estimated)	7,743	1,384	1,089	28.6	([2])	([2])
Total	87,286	9,625	13,319	.....		

[1] Excludes administrative costs.
[2] Included in total shown for training.
[3] Of total workers entering training, 5,640 (59 percent) in 1980 and 18,940 (94 percent) in 1981 self-financed their training costs.
[4] Total outlays of $1.0 million for job search and relocation expenses.
[5] Total outlays of $3.0 million for job search and relocation expenses.

Source: Department of Labor.

Funding

Federal funds, as an entitlement from general revenues under the Federal Unemployment Benefit Account (FUBA) in the Department of Labor, cover only the portion of the worker's total entitlement represented by the continuation of UI benefit levels in the form of TRA payments, plus the salaries and expenses for ETA personnel administering the program. Funds made available under grants to States defray expenses of any employment services. Funding for training, job search and relocation allowances, and related expenses is subject to annual appropriations for the Department of Labor.

For fiscal year 1987, $29.9 million is appropriated for training and job search and relocation allowances, including necessary related administrative expenses. Estimated outlays for trade readjustment allowance payments total $176 million.

The States are reimbursed from Treasury general revenues for benefit payments and other costs incurred under the program. A penalty under section 239 of the Trade Act of 1974 provides for reduction by 15 percent of the credits for State unemployment taxes which employers are allowed against their liability for Federal unemployment tax if a State has not entered into or has not fulfilled its commitments under a cooperative agreement.

Trade Adjustment Assistance Program for Firms

Section 251 through 264 of the Trade Act of 1974, as amended, contain the procedures, eligibility requirements, benefits and their terms and conditions, and administrative provisions of the trade adjustment assistance program for firms adversely impacted by increased import competition. Administration of the program was transferred in 1982 within the Department of Commerce from the Economic Development Administration to the International Trade Administration. Amendments in 1986 under the COBRA eliminated financial assistance benefits, increased government participation in technical assistance, and expanded the criteria for firm certification.

Program benefits now consist of technical assistance for petitioning firms which qualify under a two-step procedure: (1) certification by the Secretary of Commerce that the petitioning firm is eligible to apply, and (2) approval by the Secretary of Commerce of the application by a certified firm for benefits, including the firm's proposal for economic adjustment.

To certify a firm as eligible to apply for adjustment assistance, the Secretary must determine that three conditions are met:

1. A significant number or proportion of the workers in the firm have been or are threatened to be totally or partially laid off;
2. Sales and/or production of the firm have decreased absolutely, or sales and/or production that accounted for at least 25 percent of total production or sales of the firm during the 12 months preceding the most recent 12-month period for which data are available have decreased absolutely; and
3. Increased imports of articles like or directly competitive with articles produced by the firm have "contributed importantly" to both the layoffs and the decline in sales and/or production.

A certified firm may file an application with the Secretary of Commerce for trade adjustment assistance benefits at any time within 2 years after the date of the certification of eligibility. The application must include a proposal by the firm for its economic adjustment. The Secretary may furnish technical assistance to the firm in preparing its petition for certification and/or in developing a viable economic adjustment proposal.

The Secretary approves the firm's application for assistance only if he determines that its adjustment proposal (a) is reasonably calculated to make a material contribution to the economic adjustment of the firm; (b) gives adequate consideration to the interests of the workers in the firm; and (c) demonstrates that the firm will make all reasonable efforts to use its own resources for economic development.

Benefits

Technical assistance may be given to implement the firm's economic adjustment proposal in addition to, or in lieu of, precertification assistance or assistance in developing the proposal. It may be furnished through existing government agencies or through private individuals, firms, and institutions (including private consulting

services), or by grants to intermediary organizations, including regional Trade Adjustment Assistance Centers. As amended by the COBRA, the Federal Government may bear the full cost of technical assistance to a firm in preparing its petition for certification. However, the Federal share cannot exceed 75 percent of the cost of assistance furnished through private individuals, firms, or institutions for developing or implementing an economic adjustment proposal. Grants may be made to intermediate organizations to defray up to 100 percent of their administrative expenses in providing technical assistance.

As amended in 1984, the Secretary of Commerce also may provide technical assistance of up to $10 million annually per industry to establish industrywide programs for new product or process development, export development, or other uses consistent with adjustment assistance objectives. The assistance may be furnished through existing agencies, private individuals, firms, universities, and institutions, and by grants, contracts, or cooperative agreements to associations, unions, or other nonprofit organizations of industries in which a substantial number of firms or workers have been certified.

Funding

Funds to cover all costs of the program are subject to annual appropriations to the International Trade Administration of the Department of Commerce from general revenues. For fiscal year 1987, a total of $15.790 million was appropriated for the program.

TABLE 4.—NUMBER OF FIRMS CERTIFIED AND TECHNICAL AND FINANCIAL ASSISTANCE AUTHORIZED FOR THE PERIOD FROM APRIL 1975 THROUGH SEPTEMBER 30, 1986

[Dollars in thousands]

Number of firms certified	2,768
Technical assistance: Number of firms receiving assistance	5,103
Total assistance authorized	$139,428
Individual firms	99,320
Industrywide	40,108
Financial assistance: Number of firms receiving loans	[1] 340
Total loans authorized	[1] $385,051
Direct loans	[1] 206,957
Loan guarantees	[1] 178,094

[1] Financial assistance was terminated by statute as of April 7, 1986.

Source: Department of Commerce.

Legislative Changes During 1986

The Consolidated Omnibus Budget Reconciliation Act of 1985 contained a reauthorization of the TAA programs for workers and firms for 6 years until September 30, 1991, retroactive to December 19, 1985. The COBRA also made certain amendments to the programs which would not incur estimable increased budgetary costs. The primary amendments were as follows:

Worker TAA

—Workers must be enrolled in or have completed a job search program approved by the Secretary of Labor in order to receive TRA payments, unless the Secretary has determined that no acceptable job search program is reasonably available.
—Additional weeks of vacation, sick, military, or other authorized leave, leave to serve as a full-time union representative, or of disability covered by workmen's compensation may be counted toward the minimum 26 weeks of prelayoff employment required for TRA eligibility.
—Basic TRA payments may be collected during the 104-week (rather than 52-week) period immediately following exhaustion of rights to regular unemployment compensation.
—The Secretary of Labor is required, rather than authorized, to approve training if the worker meets the statutory conditions and appropriated funds are available.

Firm TAA

—Firms may be certified if at least 25 percent of their total sales and/or production have decreased absolutely.
—Only technical assistance is available; direct loan and loan guarantee financial assistance is eliminated.
—The Federal Government may bear the full cost, rather than a maximum 75 percent share, of technical assistance provided to firms to prepare petitions for certification.

Section 6. Unemployment Compensation

Overview

The Social Security Act of 1935 (Public Law 74-271) created the Federal-State unemployment compensation (UC) system. It has two main objectives: (1) to provide temporary and partial wage replacement to involuntarily unemployed workers who were recently employed; and (2) to help stabilize the economy during recessions. The U.S. Department of Labor oversees the system, but each State administers its own program. Because Federal law defines the District of Columbia, Puerto Rico, and Virgin Islands as "States" for the purposes of unemployment compensation, there are 53 State programs.

The Federal Unemployment Tax Act of 1939 (Public Law 76-379) and titles III, IX, and XII of the Social Security Act form the framework of the system. The Federal Unemployment Tax Act (FUTA) currently imposes a 6.2 percent gross tax rate on the first $7,000 paid annually by covered employers to each employee. Employers in States with programs approved by the Federal Government and with no delinquent Federal loans may credit 5.4 percentage points against the 6.2 percent tax rate, making the minimum, net Federal unemployment tax rate 0.8 percent. This Federal revenue finances administration of the system, half of the Federal-State extended benefits program, and a Federal account for State loans. In theory, the States are supposed to use the revenue turned back to them by the 5.4 percent credit to finance their regular State programs and half of the Federal-State extended benefits program.

In 1976 Congress passed a temporary surtax of 0.2 percent of taxable wages to be added to the permanent FUTA tax rate (Public Law 94-566). Thus, the current 0.8 percent FUTA tax rate has two components: a permanent tax rate of 0.6 percent and a temporary surtax rate of 0.2 percent. Congress passed the 0.2 percent surtax rate to repay loans to the extended benefits program made by the Federal general fund. The administration projected these loans to be repaid in calendar year 1987, which would make the FUTA tax rate 0.6 percent in calendar year 1988.

TABLE 1.—UNEMPLOYMENT COMPENSATION PROGRAM STATISTICS

	Fiscal year—										
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 (estimate) [2]	1988 (projected) [2]
Total civilian unemployment rate (percent)	6.2	5.8	6.8	7.3	9.1	10.1	7.8	7.2	7.0	6.9	6.5
Insured unemployment rate (percent) [1]	3.5	3.1	3.8	3.5	4.4	4.3	2.9	2.9	2.8	2.7	2.5
Coverage (millions of individuals)	79.9	86.1	87.0	88.2	86.8	86.3	89.9	93.0	95.7	97.9	100.3
Average weekly benefit amount (dollars)	80	85	96	102	114	120	119	122	129	135	141
State unemployment compensation:											
Beneficiaries (millions of individuals)	7.7	7.8	9.9	8.8	11.4	9.9	7.6	8.4	8.3	8.1	7.9
Regular benefit exhaustions (millions of individuals)	2.2	2.0	2.7	3.2	3.7	4.6	2.8	2.6	2.8	2.8	2.6
Regular benefits paid (billions of dollars)	8.32	8.74	12.95	13.46	19.34	20.84	13.3	14.3	15.6	15.7	15.6
Extended benefits (State share: billions of dollars)	.51	.12	.56	1.06	.93	1.21	.03	.03	.05	.07	.01
State tax collections (billions of dollars)	11.03	12.27	11.91	12.37	12.77	14.43	19.04	20.01	18.8	17.4	16.2
State trust fund impact (income-outlays: billions of dollars)	+2.20	+3.41	−1.60	−2.15	−7.50	−7.62	+5.70	+5.65	+3.17	+1.57	+0.57
Federal unemployment compensation accounts:											
Federal tax collections (billions of dollars) [3]	2.60	2.91	3.19	3.26	3.18	3.58	5.02	4.44	4.08	4.99	4.22
Outlays: Federal extended benefits share plus Federal supplemental benefits (billions of dollars)	.69	.12	.56	1.06	.97	6.80	3.01	.03	.05	.07	.01
Administrative costs (billions of dollars):											
Unemployment Insurance Service	.93	.97	1.15	1.32	1.42	1.70	1.58	1.58	1.57	1.60	1.70
Employment Service [4]	.64	.70	.73	.73	.68	.72	.76	.92	.93	.91	.89
Total administrative costs	1.57	1.67	1.88	2.05	2.10	2.42	2.31	2.50	2.50	2.51	2.59

[1] The average number of workers claiming State unemployment compensation benefits as a percent of all workers covered.
[2] Based on President's 1988 budget.
[3] Net of reduced credits.
[4] Includes Bureau of Labor Statistics and Veterans' Employment Service.

Sources: Office of Research, Legislation and Program Policies/ETA/UIS/DOL, Division of Actuarial Services, and U.S. Budget Appendixes.

The Federal Unemployment Tax Act (FUTA) determines covered employment. FUTA also imposes certain requirements on the State programs, but the States generally determine individual qualification requirements, disqualification provisions, eligibility, weekly benefit amounts, potential weeks of benefits, and the State tax structure used to finance all of the regular State benefits and half of the extended benefits.

The Social Security Act provides for the administrative framework. Title III authorizes Federal grants to the States for administration of the State UC laws. Title IX authorizes the various components of the Federal Unemployment Trust Fund. Title XII authorizes advances or loans to insolvent State UC programs.

The Unemployment Trust Fund

The Federal unified budget accounts for all Federal-State UC outlays and taxes in the Federal Unemployment Trust Fund. The Unemployment Trust Fund has 59 accounts. The accounts consist of 53 State UC program accounts, the Railroad Unemployment Insurance Account, Railroad Administration Account, and four Federal accounts. The status of each State program account at the beginning of fiscal year 1987 is shown in table 2.

The economic expansion has improved the fiscal condition of the unemployment trust fund. State debt declined from $9.8 billion to $6.3 billion to $4.8 billion at the beginning of fiscal years 1985, 1986, and 1987, respectively. The number of States with Federal loans decreased from 16 to 13 to 10 over the same time period.

TABLE 2.—STATE UNEMPLOYMENT TRUST FUND ACCOUNT BALANCES AT THE BEGINNING OF FISCAL YEAR 1987

[Dollars in millions]

State	1987 beginning balance	Minus loans outstanding at beginning of 1987	1987 adjusted beginning balances	Adjusted 1987 beginning balance as a percent of total wages in State [3]
Alabama	$461			2.0
Alaska	105			1.8
Arizona	392			1.7
Arkansas	104			0.9
California	3,640			1.5
Colorado	103			0.4
Connecticut	189			0.6
Delaware	88			1.6
District of Columbia	71			0.7
Florida	1,546			2.0
Georgia	700			1.6
Hawaii	192			2.8
Idaho	88			1.7

TABLE 2.—STATE UNEMPLOYMENT TRUST FUND ACCOUNT BALANCES AT THE BEGINNING OF FISCAL YEAR 1987—Continued

[Dollars in millions]

State	1987 beginning balance	Minus loans outstanding at beginning of 1987	1987 adjusted beginning balances	Adjusted 1987 beginning balance as a percent of total wages in State [3]
Illinois	465	891	−426	−0.4
Indiana	450			1.2
Iowa	124			0.8
Kansas	337			2.1
Kentucky	147			0.7
Louisiana	0	687	−687	−2.5
Maine	95			1.4
Maryland	531			1.6
Massachusetts	994			1.7
Michigan	1,070	1,287	−217	−0.3
Minnesota	42			0.1
Mississippi	375			3.1
Missouri	328			0.9
Montana	26			0.7
Nebraska	78			0.8
Nevada	204			2.5
New Hampshire	139			1.7
New Jersey	1,185			1.7
New Mexico	115			1.4
New York	2,154			1.3
North Carolina	1,072			2.5
North Dakota	0	5	−5	0.0
Ohio	1	495	−494	−0.6
Oklahoma	89			0.5
Oregon	294			1.7
Pennsylvania	177	897	−720	−0.9
Puerto Rico	182	2	180	2.4
Rhode Island	121			1.7
South Carolina	131			0.7
South Dakota	37			1.2
Tennessee	427			1.4
Texas	(1)	148	−148	−0.1
Utah	161			1.7
Vermont	65			1.8
Virginia	519			1.3

TABLE 2.—STATE UNEMPLOYMENT TRUST FUND ACCOUNT BALANCES AT THE BEGINNING OF FISCAL YEAR 1987—Continued

[Dollars in millions]

State	1987 beginning balance	Minus loans outstanding at beginning of 1987	1987 adjusted beginning balances	Adjusted 1987 beginning balance as a percent of total wages in State [3]
Virgin Islands	8	3	1	1.5
Washington	335			1.1
West Virginia	0	217	−217	−2.2
Wisconsin	139	127	12	0.0
Wyoming	45			1.2
Total [2]	20,341	−4,751	−2,722	

[1] Less than $500,000.
[2] Figures may not correspond exactly in U.S. Treasury data because of rounding.
[3] Total wages in the State for the 12 months ending June 30, 1986.

Source: U.S. Departments of Labor and Treasury.

The four Federal accounts are: (1) the Employment Security Administration Account (ESAA), which funds administration; (2) the Extended Unemployment Compensation Account (EUCA), which funds the Federal half of the extended benefits program; (3) the Federal Unemployment Account (FUA), which funds loans to insolvent State UC programs; and (4) the Federal Employee Compensation Account (FECA), which funds benefits for Federal civilian and military personnel authorized under 5 U.S.C. 85. Federal unemployment taxes finance the ESAA, EUCA, and FUA, but general revenues finance the FECA. Present law authorizes loans to ESAA, EUCA, and FUA from the general fund, which are interest-free for EUCA and FUA, but interest-bearing for ESAA.

Table 3 summarizes the financial status of these Federal accounts at the beginning of fiscal year 1987. The EUCA and FUA owed the general fund about $6.6 billion. This is a decrease of $3.0 billion or 31 percent below the prior year.

TABLE 3.—BALANCES IN THE FEDERAL ACCOUNTS OF THE UNEMPLOYMENT TRUST FUND AT THE BEGINNING OF FISCAL 1987

[In millions of dollars]

Accounts	Beginning balance	Minus general fund advances	Net beginning balance
Employment Security Administration	1,049	0	1,049
Extended unemployment compensation	45	−803	−758
Federal unemployment (State loans)	1,725	−5,853	
Federal employee compensation	93	0	93

Source: U.S. Department of Treasury.

Benefits

Coverage

In order to qualify for benefits, an unemployed person usually must have worked recently for a covered employer for a specified period of time and for a certain amount of wages. About 95 million individuals are covered by UC. This is approximately 97 percent of all wage and salary workers or about 9 out of 10 employed persons.

The Federal Unemployment Tax Act (FUTA) covers certain employers that State laws also must cover for employers in the States to qualify for the 5.4 percent Federal credit. Since employers in the States would lose this credit and their employees would not be covered if the States did not have this coverage, all States cover the following groups: (1) Except for nonprofit organizations, State-local governments, certain agricultural labor, and certain domestic service, FUTA covers employers who paid wages of at least $1,500 during any calendar quarter or who employed at least one worker in at least 1 day of each of 20 weeks in the current or prior year; (2) FUTA covers agricultural labor for employers who paid cash wages of at least $20,000 for agricultural labor in any calendar quarter or who employed 10 or more workers in at least 1 day in each of 20 different weeks in the current or prior year. In addition, section 3306(c)(1) of FUTA exempts certain alien farmworkers until January 1993; and (3) FUTA covers domestic service employers who paid cash wages of $1,000 or more for domestic service during any calendar quarter in the current or prior year.

FUTA requires coverage of nonprofit organization employers of at least four workers for 1 day in each of 20 different weeks in the current or prior year and State-local governments without regard to the number of employees. Nonprofit and State-local government organizations are not, however, required to pay Federal unemployment taxes, but instead may choose to reimburse the system for benefits paid to their laid off employees.

States may cover certain employment not covered by FUTA, but most States have not expanded FUTA coverage significantly. The excluded coverage involves: (1) self-employment; (2) certain agricultural labor and domestic service; (3) service for relatives; (4) service of patients in hospitals; (5) certain student interns; (6) certain alien farmworkers; (7) certain seasonal camp workers; and (8) railroad workers.

The number of covered workers receiving unemployment compensation

Although the unemployment compensation (UC) system covers about 9 out of 10 employed persons, table 4 shows that on average only about 1 out of 3 unemployed persons were receiving UC benefits in 1986. This compares with a peak of 81 percent of the unemployed receiving UC benefits in April 1975 and a low point of about 27 percent in October 1985. Many other countries compensate unemployed persons at much higher rates. For example, in August 1984, Sweden, Germany, and Japan compensated over 60 percent of their unemployed while the comparable figure in the United States was 31 percent.

TABLE 4.—INSURED UNEMPLOYMENT AS A PERCENT OF TOTAL UNEMPLOYMENT

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
1974.....	53	54	57	60	55	40	43	44	40	42	48	60	50
1975.....	66	73	77	81	79	72	77	79	73	74	76	80	76
1976.....	78	75	76	73	72	58	66	66	60	59	60	63	67
1977.....	67	66	66	66	59	46	52	49	47	48	49	57	56
1978.....	54	54	50	47	44	36	39	42	35	37	34	43	43
1979.....	48	48	47	47	42	33	39	38	37	38	40	49	42
1980.....	52	51	53	52	49	45	49	49	55	49	50	54	50
1981.....	54	50	48	46	40	35	37	37	36	34	38	41	41
1982.....	47	44	48	49	45	40	42	42	43	48	49	47	45
1983.....	50	53	51	53	53	40	39	36	34	33	39	41	44
1984.....	40	38	38	36	34	30	31	31	30	31	31	38	34
1985.....	40	41	41	39	32	28	30	30	28	27	32	37	34
1986.....	38	36	37	35	32	29	32	32	29	30	32	37	33

Source: USDOL/ETA/UIS, Division of Actuarial Services.

Eligibility

States have developed diverse and complex methods for determining unemployment compensation eligibility. In general there are three major factors: (1) the amount of recent employment and earnings; (2) demonstrated ability and willingness to seek and accept suitable employment; and (3) certain disqualifications related to a claimant's most recent job separation or job offer refusal.

Monetary qualifications

Table 5 shows the State monetary qualification requirements in the base year for the minimum and maximum weekly benefit amounts, and for the maximum total potential benefits. The base year is a recent 1-year period that most States (41) define as the first 4 of the last 5 completed calendar quarters before the unemployed person claims benefits. Most States require employment in at least 2 calendar quarters of the base year. Qualifying wages for the minimum weekly benefit amount vary from $150 in Hawaii to $3,560 in Oklahoma. For the maximum weekly benefit amount, the range is $3,250 in Nebraska to $22,500 in New Hampshire. The range of qualifying wages for the maximum total potential benefits, which is the product of the maximum weekly benefit amount and the maximum potential weeks of benefits, is $3,800 in Puerto Rico to $22,500 in New Hampshire.

TABLE 5.—MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS IN 1987 [1]

State	Required total earnings in base year			Minimum work in base year (quarters) [3]
	For minimum weekly benefit	For maximum weekly benefit	For maximum potential benefits [2]	
Alabama	$774	$4,302	$9,358	2Q
Alaska	1,000	19,750	19,750	2Q
Arizona	1,500	5,044	10,528	2Q
Arkansas	1,320	10,192	15,288	2Q
California	1,200	5,533	8,630	.....
Colorado	1,000	22,152	22,152	.....
Connecticut	600	8,160	8,160	2Q
Delaware	720	15,990	15,990	.....
District *ERR97*of Columbia	900	8,625	13,000	2Q
Florida	400	7,000	18,200	2Q
Georgia	413	5,437	15,078	2Q
Hawaii	150	6,340	6,340	2Q
Idaho	1,716	7,215	16,835	2Q
Illinois	1,600	4,983	4,983	2Q
Indiana	2,500	3,349	9,984	2Q
Iowa	840	5,671	12,636	2Q
Kansas	1,470	5,910	15,366	2Q
Kentucky	1,500	11,772	11,772	2Q
Louisiana	300	7,669	19,739	2Q
Maine	1,685	5,098	11,854	2Q
Maryland	900	6,984	6,984	2Q
Massachusetts	1,200	6,600	18,333	.....
Michigan	(u)	(u)	(u)	(u)
Minnesota	1,545	7,170	17,686	2Q
Mississippi	1,200	5,200	10,140	2Q
Missouri	750	4,333	10,140	2Q
Montana	1,000	7,306	15,434	2Q
Nebraska	600	3,250	9,825	2Q
Nevada	600	6,412	13,338	2Q
New Hampshire	2,600	22,500	22,500	2Q
New Jersey	1,520	7,600	13,300	2Q
New Mexico	1,031	5,135	6,847	2Q
New York	1,600	7,180	7,180	2Q
North Carolina	1,675	7,176	14,352	2Q
North Dakota	2,340	7,683	15,161	2Q
Ohio	1,702	5,880	7,644	2Q
Oklahoma	3,560	7,387	7,000	2Q
Oregon	1,000	17,280	17,280	2Q

TABLE 5.—MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS IN 1987 [1]—Continued

State	Required total earnings in base year			Minimum work in base year (quarters) [3]
	For minimum weekly benefit	For maximum weekly benefit	For maximum potential benefits [2]	
Pennsylvania	1,320	9,560	9,560	2Q
Puerto Rico	280	3,800	3,800	2Q
Rhode Island	1,420	6,945	14,585	2Q
South Carolina	900	4,875	9,750	2Q
South Dakota	1,568	7,224	10,059	2Q
Tennessee	1,463	8,360	13,520	2Q
Texas	1,163	7,575	19,548	2Q
Utah	1,400	7,683	18,970	2Q
Virgin Islands	1,287	5,382	10,764	2Q
Vermont	700	6,160	6,160	2Q
Virginia	2,950	8,350	16,700	2Q
Washington	1,325	4,925	17,730	.....
West Virginia	2,200	21,250	21,250	2Q
Wisconsin	2,223	7,410	12,870	2Q
Wyoming	1,440	7,880	17,157	2Q

[1] Based on benefits for total unemployment. Amounts payable can be stretched out over a longer period in the case of partial unemployment.

[2] Based on maximum weekly benefit amount paid for maximum number of weeks. Total potential benefits equal a worker's weekly benefit amount times this potential duration.

[3] Number of quarters of work in base year required to qualify for minimum benefits. "2Q" denotes that State directly or indirectly requires work in at least 2 quarters of the base year. States without an entry have the minimum work requirement specified as a wage amount.

[4] Means unavailable. Michigan calculates benefits using after-tax wages.

Source: U.S. Department of Labor.

Since the beginning of 1986, 11 States increased the required earnings in the base year to qualify for the minimum weekly benefit amount. Thirty-four States increased the qualification requirement for the maximum weekly benefit amount. Thirty-four States increased their qualification requirements for maximum potential benefits.

Ability to work and availability for work

All State laws provide that a claimant must be: (1) able to work; and (2) available for work. A claimant must meet these conditions continually to receive benefits.

Only minor variations exist in State laws setting forth the requirements concerning "ability to work." A few States specify that a claimant must be mentally and physically able to work.

"Available for work" is often translated to mean being ready, willing, and able to work. In addition to registration for work at a

local employment office, most State laws require that a claimant actively seek work or make a reasonable effort to obtain work. Generally, a person may not refuse an offer of or referral to "suitable work" without good cause.

"Suitable work" is generally work in a claimant's customary occupation, which meets certain health, safety, moral, and labor standards. Most State laws list certain criteria by which the "suitability" of a work offer is to be tested. The usual criteria include the degree of risk to a claimant's health, safety, and morals; the physical fitness and prior training, experience, and earnings of the person; the length of unemployment and prospects for securing local work in a customary occupation; and the distance of the available work from the claimant's residence. Generally, as the length of unemployment increases the claimant is required to accept a wider range of jobs.

In addition, Federal law requires States to deny benefits provided under the extended benefit program to any individual who fails to accept any work that is offered in writing or is listed with the State employment service, or fails to apply for any work to which he or she is referred by the State agency, if the work is within the person's capabilities, pays wages equal to the highest of the Federal or any State or local minimum wage, pays a gross weekly wage that exceeds the person's average weekly unemployment compensation benefits plus any supplemental unemployment compensation (usually private) payable to the individual, and is consistent with the State definition of "suitable" work in other respects.

States must refer extended benefits claimants to any job meeting these requirements. If the State, based on information provided by the individual, determines that the individual's prospects for obtaining work in his or her customary occupation within a reasonably short period are good, the determination of whether any work is "suitable work" is made in accordance with State law rather than the above.

There are certain circumstances under which Federal law provides that State and extended benefits may not be denied. A State may not deny benefits to an otherwise eligible individual for refusing to accept new work under any of the following conditions: (1) If the position offered is vacant directly due to a strike, lockout, or other labor dispute; (2) if the wages, hours, or other conditions of the work offered are substantially less favorable to the individual than in those prevailing for similar work in the locality; (3) if as a condition of being employed the individual would be required to join a company union or to resign from or refrain from joining any bona fide labor organization. Further, benefits may not be denied solely on the grounds of pregnancy. The State is prohibited from canceling wage credits or totally denying benefits except in cases of misconduct, fraud, or receipt of disqualifying income.

There are also certain conditions under which Federal law requires that benefits be denied. For example, benefits must be denied to employees of education institutions during summer (and other vacation periods) if they have a reasonable assurance of reemployment; to professional athletes between sport seasons; and to aliens not legally admitted to work in the United States.

Disqualifications

The major causes for disqualification from benefits are not being able to work or available for work, voluntary separation from work without good cause, discharge for misconduct connected with the work, refusal of suitable work without good cause, and unemployment resulting from a labor dispute. Disqualification for one of these reasons may result in a postponement of benefits for some prescribed period, a cancellation of benefit rights, or a reduction of benefits otherwise payable.

Of the 18.3 million "monetarily eligible" initial UI claims in fiscal year 1986, 20.1 percent were disqualified. This figure subdivides into 5.2 percent for not being able to work or available for work, 5.1 percent for voluntarily leaving a job without good cause, 3.3 percent for being fired for misconduct on the job, 0.2 percent for refusing suitable work, and 6.3 percent for committing other disqualifying acts. The total disqualification rate ranged from a low of 3.6 percent in Tennessee to a high of 83 percent in Nebraska with Colorado the next highest at 43.2 percent. (Note that a claimant can be disqualified for any week claimed so that it is possible for a claimant to be disqualified more times than the total number of his initial claims in his benefit year.)

Federal law requires that benefits provided under the extended benefits program will be denied to an individual for the entire spell of his or her unemployment if he or she was disqualified from receiving State benefits because of voluntarily leaving employment, discharge for misconduct, or refusal of suitable work. These benefits will be denied even though the disqualification was subsequently lifted with respect to the State benefits prior to reemployment. The person could receive these benefits, however, if the disqualification is lifted because he or she became reemployed and met the work or wage requirement of State law.

Ex-service members

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) established new requirements for the payment of benefits to ex-service members under the unemployment compensation for ex-service members (UCX) program. Under the act, benefits were limited to individuals who (1) had 365 or more days of military service; (2) were discharged or released under honorable conditions; (3) did not resign or voluntarily leave the service (i.e., they were not eligible for reenlistment); and (4) were not released or discharged "for cause" as defined by the Department of Defense. The requirements applied to individuals who left Federal military service on or after July 1, 1981, but only for weeks of unemployment that began on or after August 13, 1981, the date of enactment of Public Law 97-35.

The Miscellaneous Revenue Act of 1982 (Public Law 97-362) modified the above eligibility requirements for ex-service members. Federal unemployment benefits are now payable to unemployed ex-service members who: (1) are separated under honorable conditions (and, in the case of officers, did not resign for the good of the service); and (2) have completed the first full term of active service they agreed to serve. Ex-service members who are separated prior to completing their first full term of active service can qualify for un-

employment compensation benefits if they are separated under honorable conditions: (a) for the convenience of the Government under an early release program; (b) because of medical disqualification, pregnancy, parenthood, or any service-incurred injury or disability; (c) because of hardship; or (d) if they have served for 365 continuous days, because of personality disorder or inaptitude. In addition to these eligibility requirements, ex-service members must wait 4 weeks from the date of their separation from the service before they may receive benefits. The maximum number of weeks of benefits an ex-service member may receive based on his employment in the military is 13. These eligibility provisions are effective for separations from the service on or after July 1, 1981, but only for weeks of unemployment beginning on or after October 25, 1982.

Pension offset

The Unemployment Compensation Amendments of 1976 (Public Law 94-566) required all States to reduce an individual's unemployment compensation benefits by the amount of any governmental or private pension or retirement pay received by the individual. Public Law 96-364 modified this offset requirement.

Under current law, States are required to make the offset only in those cases in which the work-related pension was maintained or contributed to by a "base period" or "chargeable" employer. Entitlement to, and the amount and duration of, unemployment benefits are based on work performed during this State-specified base period. A "chargeable" employer is one whose account will be charged for unemployment compensation received by the individual.

States are allowed to reduce the amount of the offset by an amount consistent with any contribution the employee made toward the pension. For example, this allows States to limit the offset to one-half of the amount of a social security pension received by an individual who qualifies for unemployment benefits.

Taxation of unemployment insurance benefits

The Tax Reform Act of 1986 (Public Law 99-514) made all unemployment compensation taxable after December 31, 1986. Prior law applied Federal income taxes only to unemployment compensation received by individuals with incomes above certain levels.

Amount and duration of weekly benefits

In general, the States set weekly benefit amounts as a fraction of the individual's average weekly wage up to some State-determined maximum. The total maximum duration available under current law is 39 weeks. The permanent, regular State programs usually provide up to 26 weeks. (Only Puerto Rico provides fewer weeks, providing a maximum of 20 weeks of benefits.) The permanent Federal-State extended benefits program provides up to 13 additional weeks in States where unemployment rates are relatively high.

The State-determined weekly benefit amounts generally replace between 50 and 70 percent of the individual's average weekly pretax wage up to some State-determined maximum. The average weekly wage is often calculated only from the calendar quarter in the base year in which the claimant's wages were highest. The

State-determined maximum weekly benefit amounts generally vary between 50 and 70 percent of the average weekly covered wage in each State. Individual wage replacement rates tend to vary inversely with the claimant's average weekly pretax wage with high wage earners receiving lower wage replacement rates. Partly as a result, the national average weekly benefit amount as a percent of the average weekly covered wage was only 36 percent in fiscal year 1986.

Table 6 shows the minimum and maximum weekly benefit amounts and potential duration for each State program. In fiscal year 1986, the national average weekly benefit amount was $134 and the average duration was 14.6 weeks, making the average total benefits $1,956. The minimum weekly benefit amounts for 1987 vary from $5 in Hawaii to $62 in Alaska. The maximum weekly benefit amounts range from $95 in Puerto Rico to $330 in Massachusetts. Most States vary the duration of benefits with the amount of earnings the claimant has in his base year. Nine States provide the same duration, however, for all claimants. The minimum durations range from 1 week in Wisconsin to 26 weeks in 8 States. The maximum duration is 26 weeks in 50 States. Only Puerto Rico has a maximum duration of fewer than 26 weeks at 20 weeks and 2 States have maximum durations higher than 26 weeks up to 30 weeks in Massachusetts and Washington.

Since the beginning of 1986, 14 States increased their minimum weekly benefit amounts. Thirty-five States raised their maximum weekly benefit amounts. Also, one State lowered its minimum potential duration and two States increased it.

TABLE 6.—AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS

State	1987 weekly benefit amount [1]		1986 average weekly benefit	1987 potential duration (weeks)		1986 average duration (weeks)
	Minimum	Maximum		Minimum	Maximum	
Alabama	$22	$120	$99	11	26	11
Alaska	38–62	188–260	158	16	26	16
Arizona	40	135	111	12	26	13
Arkansas	44	196	117	10	26	12
California	30	166	118	12	26	16
Colorado	25	213	155	8	26	13
Connecticut	15–22	204–254	153	26	26	11
Delaware	20	205	143	18	26	15
District of Columbia	26	250	159	17	26	19
Florida	10	175	123	10	26	13
Georgia	27	145	109	4	26	9
Hawaii	5	212	145	26	26	14
Idaho	45	185	133	10	26	13
Illinois	51	168–219	141	26	26	18
Indiana	40	96–161	99	9	26	12
Iowa	24–29	162–199	139	11	26	15

TABLE 6.—AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS—Continued

State	1987 weekly benefit amount [1]		1986 average weekly benefit	1987 potential duration (weeks)		1986 average duration (weeks)
	Minimum	Maximum		Minimum	Maximum	
Kansas	49	197	149	10	26	13
Kentucky	22	140	107	15	26	15
Louisiana	10	205	150	12	26	18
Maine	25–37	152–228	122	7	26	17
Maryland	25–29	195	136	26	26	14
Massachusetts	14–21	220–330	153	9	30	15
Michigan	54	229	155	15	26	14
Minnesota	58	239	166	11	26	16
Mississippi	30	130	93	13	26	13
Missouri	22	130	107	11	26	12
Montana	44	179	125	8	26	14
Nebraska	12	126	111	17	26	14
Nevada	16	171	133	12	26	14
New Hampshire	36	150	115	26	26	6
New Jersey	45	228	156	15	26	16
New Mexico	31	158	121	19	26	16
New York	40	180	135	26	26	17
North Carolina	16	184	118	13	26	10
North Dakota	60	197	149	12	26	15
Ohio	10	147–233	148	20	26	15
Oklahoma	16	197	146	20	26	14
Oregon	50	216	138	6	26	14
Pennsylvania	35–40	241–249	153	16	26	16
Puerto Rico	7	95	70	20	20	NA
Rhode Island	39–44	191–236	129	12	26	13
South Carolina	21	125	100	14	26	11
South Dakota	28	129	108	18	26	12
Tennessee	30	130	92	12	26	12
Texas	32	203	160	13	26	14
Utah	13	197	154	10	26	13
Vermont	18	154	121	26	26	14
Virginia	58	167	127	12	26	9
Virgin Islands	30	138	111	14	26	18
Washington	53	197	137	16	30	16
West Virginia	24	225	142	26	26	15
Wisconsin	37	196	141	1	26	14
Wyoming	36	198	164	12	26	15

[1] A range of amounts is shown for those States which provide dependents allowances.
NA: Not available.

Source: U.S. Department of Labor.

Extended Benefits

The extended benefits program provides one-half of a claimant's total State benefits up to 13 weeks in States with an activated program for a combined maximum of 39 weeks of regular and extended benefits. Weekly benefit amounts are identical to the State benefits for each claimant. The program activates in a State under two conditions: (1) if the State's 13-week average insured unemployment rate (IUR) in the most recent weeks is at least 120 percent of the average of its 13-week IUR's in the last 2 years for the same 13-week calendar period and its current 13-week average IUR is at least 5.0 percent; or (2) at State option, if its current 13-week average IUR is at least 6.0 percent. Only 13 State programs have not adopted the second, optional condition. The 13-week average IUR is calculated from the ratio of the average number of insured unemployed persons under the regular State programs in the last 13 weeks to the average covered employment in the first 4 of the last 6 completed calendar quarters. Table 7 shows the 13-week IUR's by State for the first week in January 1983, 1984, 1985, 1986, and 1987. As indicated in the last column, there was one State (Alaska) and Puerto Rico with activated EB programs in the first week of January 1987.

TABLE 7.—STATE EXTENDED BENEFIT INDICATORS FOR THE FIRST WEEK IN JANUARY 1983, 1984, 1985, 1986, AND 1987, AND EB BENEFIT WEEKS FOR JANUARY 1987

	13-week insured unemployment rate					1987 as percent of prior 2 years	EB weeks
	1983	1984	1985	1986	1987		
Alabama	6.00	3.79	3.69	3.16	3.25	95	0
Alaska	6.89	6.10	6.18	6.81	7.45	114	13
Arizona	4.36	2.19	1.54	1.61	1.86	118	0
Arkansas	6.08	3.75	3.93	3.82	3.99	102	0
California	5.32	3.86	3.36	3.49	3.25	94	0
Colorado	3.45	2.60	1.91	2.12	2.52	123	0
Connecticut	3.42	2.06	1.54	1.61	1.40	89	0
Delaware	3.17	2.01	1.49	1.26	1.20	74	0
Dist. of Columbia	3.82	2.55	2.09	1.99	1.97	96	0
Florida	2.58	1.48	1.32	1.35	1.23	87	0
Georgia	3.46	1.91	1.84	1.65	1.71	97	0
Hawaii	3.58	3.13	3.26	2.21	1.86	68	0
Idaho	6.81	4.64	3.92	4.27	4.33	105	0
Illinois	5.84	3.61	2.94	2.94	2.66	90	0
Indiana	5.18	2.63	2.46	2.08	2.06	90	0
Iowa	4.25	2.63	2.74	2.91	2.82	99	0
Kansas	4.26	2.47	2.21	2.49	2.51	106	0
Kentucky	5.92	3.59	3.12	3.19	2.68	85	0
Louisiana	5.36	4.22	3.89	4.42	5.32	128	13
Maine	4.42	3.78	3.41	2.95	2.20	69	0

TABLE 7.—STATE EXTENDED BENEFIT INDICATORS FOR THE FIRST WEEK IN JANUARY 1983, 1984, 1985, 1986, AND 1987, AND EB BENEFIT WEEKS FOR JANUARY 1987—Continued

	13-week insured unemployment rate					1987 as percent of prior 2 years	EB weeks
	1983	1984	1985	1986	1987		
Maryland	4.26	2.69	2.10	2.09	1.76	83	0
Massachusetts	3.93	2.48	2.14	2.28	1.95	95	0
Michigan	7.43	3.39	3.37	2.90	3.12	100	0
Minnesota	4.05	2.56	2.29	2.61	2.21	90	0
Mississippi	6.19	3.63	3.69	3.27	3.85	110	0
Missouri	4.32	2.84	2.36	2.33	2.49	102	0
Montana	4.89	4.26	3.86	3.73	3.44	90	0
Nebraska	1.77	2.20	1.84	2.39	1.90	89	0
Nevada	4.92	3.27	2.81	2.88	2.56	90	0
New Hampshire	2.87	1.45	1.06	0.86	0.71	73	0
New Jersey	4.24	3.11	2.79	2.53	2.09	76	0
New Mexico	4.07	3.22	2.75	2.64	3.31	123	0
New York	3.85	3.08	2.70	2.52	2.28	87	0
North Carolina	4.58	2.21	2.48	2.02	1.74	77	0
North Dakota	3.20	2.67	2.65	2.84	2.70	98	0
Ohio	6.06	3.21	3.06	2.95	2.65	88	0
Oklahoma	4.06	2.09	2.14	2.36	2.90	128	0
Oregon	6.63	4.81	4.31	4.51	3.97	87	0
Pennsylvania	7.30	4.73	4.04	3.80	3.29	83	0
Puerto Rico	8.96	6.63	6.53	6.69	5.46	82	0
Rhode Island	5.24	3.53	3.17	2.99	2.55	82	0
South Carolina	5.63	2.58	2.98	2.59	2.10	75	0
South Dakota	2.08	1.10	1.23	1.54	1.18	85	0
Tennessee	4.53	2.79	2.76	2.61	2.34	87	0
Texas	2.85	1.88	1.50	1.72	2.78	172	0
Utah	4.83	2.75	2.54	2.27	2.39	99	0
Vermont	4.99	3.38	2.86	2.66	2.05	74	0
Virgin Islands	4.18	1.23	1.26	2.70	1.50	81	0
Virginia	2.30	3.67	3.71	1.06	0.94	46	0
Washington	6.60	5.03	4.41	4.30	3.92	90	0
West Virginia	8.59	5.55	5.66	4.19	3.79	76	0
Wisconsin	5.74	3.93	3.34	3.34	2.91	87	0
Wyoming	4.54	3.10	1.68	2.48	3.98	192	0
U.S. average	5.23	3.26	2.93	.....	.....	NA	NA

NA—Not available.

Source: U.S. Department of Labor.

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Hypothetical Weekly Benefit Amounts for Various Workers in the Regular State Programs

The following table (table 8) illustrates the amount of benefits various full-year workers can receive in regular State programs. All of the benefit amounts are for January 1987. The first column A of the table is for a full-time worker earning the minimum wage; the second column B is for a worker earning $6 per hour, while the third column C shows benefit amounts for a worker earning $9 per hour. The final column D is a part-time worker earning the minimum wage and working 20 hours per week. The weekly benefit amount for the minimum wage worker varies from $65 to $197. The maximum amount a worker can receive in these examples (column C) in each State varies considerably, from $95 to $228 per week.

TABLE 8.—WEEKLY BENEFIT AMOUNT FOR VARIOUS FULL-YEAR WORKERS IN SELECTED STATES IN JANUARY 1987

	A	B	C	D
Alabama	73	120	120	36
Arkansas	67	120	180	33
Alaska	84	128	226	56
Arizona	70	125	125	.....
California	68	105	142	38
Colorado	80	143	180	40
Connecticut	77	130	209	44
Delaware	67	120	180	33
District of Columbia	76	136	204	38
Florida	67	120	150	33
Georgia	69	124	145	34
Hawaii	70	125	188	35
Idaho	67	120	180	.....
Illinois	74	133	219	56
Indiana	75	113	147	.....
Iowa	79	142	183	40
Kansas	74	132	197	49
Kentucky	83	140	140	41
Louisiana	70	125	188	35
Maine	84	146	167	44
Maryland	73	130	195	37
Massachusetts	67	120	192	34
Michigan	NA	NA	NA	NA
Minnesota	70	120	180	.....
Mississippi	67	120	130	33
Missouri	78	130	130	39
Montana	65	117	175	42
Nebraska	72	126	126	38
Nevada	69	124	171	34
New Hampshire	83	117	141	46

TABLE 8.—WEEKLY BENEFIT AMOUNT FOR VARIOUS FULL-YEAR WORKERS IN SELECTED STATES IN JANUARY 1987—Continued

	A	B	C	D
New Jersey	85	154	228	.....
New Mexico	67	120	158	34
New York	67	120	180	.....
North Carolina	67	120	180	33
North Dakota	67	120	180	.....
Ohio	67	120	187	.....
Oklahoma	69	124	187	34
Oregon	87	156	216	50
Pennsylvania	77	132	197	43
Puerto Rico	67	95	95	34
Rhode Island	78	137	213	.....
South Carolina	67	120	125	33
South Dakota	67	120	129	33
Tennessee	112	130	130	67
Texas	70	125	188	35
Utah	68	121	180	34
Virgin Islands	70	125	138	35
Vermont	67	120	154	34
Virginia	69	124	167	.....
Washington	139	197	197	69
West Virginia	73	131	198	36
Wisconsin	67	120	180	.....
Wyoming	70	125	188	.....

A. $3.35/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.
B. $6.00/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.
C. $9.00/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; 2 children.
D. $3.35/hr. wage; 20 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.

NA means not available.

Source: U.S. Department of Labor.

FINANCING

The Federal unemployment tax

Total unemployment taxes on employers for a full-time, full-year worker earning at least $7,000 in 1985 is estimated to have averaged about $252 or 12 cents per hour. The Federal portion is $56 or 3 cents per hour and the average State portion is about $190 or 9 cents per hour. Employer taxes will vary substantially, however, depending on the State taxable wage base, State tax rates, and reduced Federal credits.

The Federal Unemployment Tax Act (FUTA) currently imposes a minimum, net Federal payroll tax on employers of 0.8 percent on the first $7,000 paid annually to each employee. The gross FUTA tax rate is 6.2 percent, but employers in States meeting certain Federal requirements and having no delinquent Federal loans are

eligible for a 5.4 percent credit, making the minimum, net Federal tax rate 0.8 percent.

Employers in States with delinquent Federal loans may face increases in their FUTA tax rate stemming from automatic reductions in the FUTA credit. States with outstanding loans from the Federal Government must repay them fully by November 10 of the calendar year in which the second consecutive January first passes with the State still having an outstanding loan. This means that a State may have from about 22 to 34 months to repay the loan without penalty, depending on when it obtained the outstanding loan. If it does not repay fully by the appropriate November 10, it becomes subject to an annual credit reduction beginning with the preceding January 1 until the State repays the loan fully. Employers must pay the additional taxes resulting from the credit reduction no later than January 31 of the next calendar year.

The credit reduction is at least 0.3 percent per year beginning with the calendar year in which the second consecutive January first passes during which the loan is outstanding. There are two potential additional credit reductions during the ensuing calendar years in which a State has an outstanding advance: (1) in the calendar years after which the third and fourth consecutive January firsts pass, the employers in the State face a reduction by the amount (adjusted for the State's taxable wage base and average wage) by which 2.7 percent exceeds the State's average tax rate on taxable wages in the calendar year to which the reduction applies; (2) in the calendar years in which the fifth through ninth consecutive January firsts pass, the employers face a reduction equal to the higher of the amount in (1) or the amount that the State's 5-year benefit cost rate exceeds the State's average tax rate on taxable wages in the calendar year to which the reduction applies. The 5-year benefit-cost rate is one-fifth of the UC benefits paid in the first 5 of the last 6 completed calendar years preceding the calendar year to which the credit reduction applies divided by taxable wages in the last calendar year.

The Omnibus Budget Reconciliation Act of 1981 modified FUTA provisions regarding Federal unemployment loans to the States. States are now charged interest on new loans that are not repaid by the end of the fiscal year in which they are obtained. Under previous law, States could receive these loans interest-free. The interest rate is the same rate as that paid by the Federal Government on State reserves in the Federal Unemployment Trust Fund for the quarter ending December 31 of the preceding year, but not higher than 10 percent per annum. A State may not pay the interest directly or indirectly from funds in their State accounts in the Federal Unemployment Trust Fund.

Employers in 5 States were subjected to a reduction in FUTA offset credit for taxable year 1986. The States were:

Illinois
Louisiana
Ohio
Pennsylvania
West Virginia

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) added a new subsection (f) to section 3302 of FUTA, which under certain conditions fully limits the FUTA tax credit reduction

to an amount that does not exceed the greater of 0.6 percent of wages subject to FUTA or the percentage reduction that was in effect for the preceding taxable year.

To qualify for a full cap in taxable year 1986, a State must have taken no action in the 12 months ending September 30, 1986, unless required under State law in effect before August 13, 1981, which has resulted or will result in:

(1) A reduction in the State's unemployment tax effort;

(2) A net decrease in the solvency of the State unemployment compensation system;

and, further, that:

(3) The State unemployment tax rate for the calendar year equals or exceeds the average benefit-cost ratio for calendar years in the five-calendar-year period ending with calendar year 1985; and

(4) The outstanding balance of advances to the State on September 30 of calendar year 1986 was not greater than the outstanding balance for such State on September 30, 1983.

Under these criteria two States qualified for the full cap: Michigan and Wisconsin.

Section 272 of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) amended Section 3302 of the Internal Revenue Code of 1954 by adding subsection (g) which gives a State the option of repaying on or before November 9 a portion of its outstanding loans each year through transfer of a specified amount from its account in the Unemployment Trust Fund (UTF) to the Federal Unemployment Account (FUA) in the UTF. The transfer to FUA would be in lieu of a reduced credit in the Federal tax paid by the employers in the State. The State must meet the following criteria in order to avoid the offset credit reduction:

(1) repay all loans for the one-year period ending on November 9, plus the additional tax due by reason of the reduced credit applicable to tax year 1986,

(2) have or will have sufficient funds remaining after the transfer to pay benefits for at least three months from November 1 of the same year without receiving another title XII advance; and

(3) have taken action by amendment of the State law, after the date of the first advance taken into account, to increase the net solvency of its UI system, and such net increase equals or exceeds the potential additional taxes for such taxable year.

Under these criteria two States qualified and thus were not subject to reduced FUTA credits for 1986: Michigan and Wisconsin.

As of November 30, 1986, outstanding unemployment loans totaled $4.7 billion. Table 9 shows the loans made to each State. Interest-bearing loans in 6 States were $1.2 billion.

TABLE 9.—LOANS TO STATES FROM THE FEDERAL UNEMPLOYMENT ACCOUNT (FUA), AS OF NOVEMBER 30, 1986

[In millions of dollars, calendar year]

	Date of first loan	Interest free loans	Interest bearing loans	Total title XII loans
Illinois	December 1975	$889	.....	$889
Louisiana	October 1982	.....	$736	736
Michigan	April 1975	1,121	.....	1,121
Ohio	March 1977	462	10	472
Pennsylvania	October 1975	894	.....	894
Texas	November 1982	.....	245	245
West Virginia	September 1980	36	179	215
Wisconsin	February 1982	127	.....	127
Total	.....	3,528	1,172	4,700

Source: U.S. Department of Labor, Unemployment Insurance Service, Division of State Program Management, Tax Administration Group.

Note.—Total does not include unpaid interest.

The State unemployment taxes

The States finance their programs with employer payroll taxes imposed on at least the first $7,000 paid annually to each employee.[1] States generally adopt a taxable wage base at least as high as the Federal level because they would otherwise lose the 5.4 percent credit on the difference between the Federal taxable wage base and State taxable wage base. Table 10 shows that as of January 1987, 35 States had taxable wage bases higher than the Federal taxable wage base, ranging up to $21,500 in Alaska.

Although the standard State tax rate is 5.4 percent, State tax rates based on unemployment experience can range from zero on some employers in 13 States up to a maximum as high as 10.5 percent in South Dakota.

Estimated national average State tax rates on taxable wages and total wages for 1986 were 2.7 and 1.1 percent, respectively. Estimated average State tax rates on taxable wages ranged from 1.3 percent in Florida to 5.9 percent in Michigan. Estimated average State tax rates on total wages varied from 0.6 percent in four States to 3.1 percent in Puerto Rico.

[1] Alabama, Alaska, New Jersey, and Pennsylvania also tax employees.

TABLE 10.—STATE UNEMPLOYMENT TAX BASES AND RATES

State	1987 tax base	1987 experience rates[1]		Estimated 1986 average tax rates as a percent of—		1986 Federal credit (percent)
		Minimum	Maximum	Taxable wages	All wages	
U.S. average..	(2)	NA	NA	2.7	1.1	NA
Alabama	$8,000	0.5	5.4	1.9	0.9	(4)
Alaska	21,500	1.0	6.5	2.3	1.6	(4)
Arizona	(2)	0.1	5.4	1.6	0.5	(4)
Arkansas	7,500	0	6.0	2.4	1.2	(4)
California	(2)	0.3	5.4	2.4	0.8	(4)
Colorado	9,000	0	5.4	2.2	0.9	(4)
Connecticut	7,100	0.5	6.4	2.2	0.7	(4)
Delaware	8,500	0.1	8.0	3.4	1.4	(4)
District of Columbia	8,000	0.8	5.4	3.1	1.0	(4)
Florida	(2)	0.1	5.4	0.9	0.4	(4)
Georgia	7,500	0.01	5.71	1.6	0.7	(4)
Hawaii	16,500	0	5.4	1.6	1.1	(4)
Idaho	16,200	0.1	6.8	3.0	2.1	(4)
Illinois	8,500	0.2	6.7	4.1	1.6	4.2
Indiana	(2)	0.02	5.4	1.5	0.6	(4)
Iowa	12,300	0	7.0	3.3	1.9	(4)
Kansas	8,000	.025	5.4	2.5	1.2	(4)
Kentucky	8,000	0.30	10.0	3.2	1.3	(4)
Louisiana	(2)	0.3	6.0	4.0	1.6	4.5
Maine	(2)	0.5	6.5	2.6	1.1	(4)
Maryland	(2)	0.1	6.0	3.0	0.9	(4)
Massachusetts	(2)	1.2	7.2	2.0	0.8	(4)
Michigan	9,500	0	10.0	5.5	2.0	(4)
Minnesota	11,200	0.1	7.5	2.5	1.2	(4)
Mississippi	(2)	0.1	6.4	1.9	0.7	(4)
Missouri	7,500	0	7.8	2.4	1.0	(4)
Montana	12,400	0	6.4	3.2	1.9	(4)
Nebraska	(2)	0.1	5.4	1.7	0.7	(4)
Nevada	11,700	0.3	5.4	1.8	1.0	(4)
New Hampshire	(2)	0.01	6.5	1.1	0.4	(4)
New Jersey	11,300	0.3	7.0	3.2	1.4	(4)
New Mexico	10,700	0.1	5.4	2.0	1.1	(4)
New York	(2)	0	6.4	3.3	1.1	(4)
North Carolina	9,600	0.1	5.7	1.9	0.9	(4)
North Dakota	10,800	0.5	5.0	2.9	1.8	(4)
Ohio	8,000	0	5.9	3.7	1.2	4.3

TABLE 10.—STATE UNEMPLOYMENT TAX BASES AND RATES—Continued

State	1987 tax base	1987 experience rates[1]		Estimated 1986 average tax rates as a percent of—		1986 Federal credit (percent)
		Minimum	Maximum	Taxable wages	All wages	
Oklahoma	9,100	0.1	6.2	2.2	1.1	(4)
Oregon	14,000	0.9	5.4	3.1	1.9	(4)
Pennsylvania	8,000	0.3	9.2	4.7	1.9	4.2
Puerto Rico	(2)	(3)	(3)	5.4	3.4	(4)
Rhode Island	11,400	0.8	8.4	3.8	2.1	(4)
South Carolina	(2)	0.19	5.4	2.1	0.9	(4)
South Dakota	(2)	0.1	10.5	1.3	0.6	(4)
Tennessee	(2)	0.15	10.0	1.6	0.7	(4)
Texas	(2)	0	6.0	2.0	0.7	(4)
Utah	12,900	2.25	8.0	2.1	1.1	(4)
Vermont	8,000	0.4	8.4	4.1	2.0	(4)
Virginia	(2)	0.1	6.2	1.3	0.5	(4)
Virgin Islands	NA	0.1	9.0	2.7	2.0	(4)
Washington	13,200	0.48	5.4	4.1	2.1	(4)
West Virginia	8,000	0	7.5	4.5	1.9	4.3
Wisconsin	10,500	0	6.7	4.9	2.6	(4)
Wyoming	10,300	0	8.5	3.2	1.6	(4)

[1] Actual rates could be higher if State has an additional tax.

[2] The 1987 tax base is $7,000 except as otherwise shown in this column.

[3] Puerto Rico is not experience rated. The rate in Puerto Rico is 5.4% of $7,000.

[4] All figures are 5.4 percent except as otherwise shown in this column. To the extent that this credit is lower than 5.4 percent, these additional taxes were due January 31, 1987.

NA means not available.

Note.—This table shows the State unemployment tax levels. It does not include the Federal unemployment taxes.

Source: Department of Labor (based on estimates by State agencies).

Table 11 shows recent data on unemployment compensation covered employment, wages, taxable wages, the ratio of taxable to total wages, and average weekly wages. The ratio of taxable wages to total wages in the States varied from 0.27 in New York to 0.69 in Puerto Rico.

TABLE 11.—12-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY UNEMPLOYMENT INSURANCE (UI) FOR PERIOD ENDING JUNE 1986

State	Average employment (thousands)	Total wages [1] (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly wages covered
United States	95,309	$1,836,209	$632,881	0.34	$372
Alabama	1,352	22,867	8,861	0.39	325
Alaska	205	5,886	2,918	0.50	551
Arizona	1,268	23,181	8,006	0.35	352
Arkansas	767	11,983	4,880	0.41	300
California	11,104	237,011	71,351	0.30	410
Colorado	1,347	26,660	9,614	0.36	381
Connecticut	1,546	33,666	9,532	0.28	419
Delaware	289	5,558	1,875	0.34	370
District of Columbia	404	9,659	2,624	0.27	460
Florida	4,419	75,707	27,909	0.37	330
Georgia	2,484	45,502	16,237	0.36	349
Hawaii	406	6,879	3,835	0.56	326
Idaho	313	5,095	2,789	0.55	312
Illinois	4,552	95,951	32,597	0.34	405
Indiana	2,079	38,803	12,564	0.32	359
Iowa	1,014	16,404	7,448	0.45	311
Kansas	924	16,116	7,371	0.46	336
Kentucky	1,171	19,843	7,355	0.37	326
Louisiana	1,485	26,960	8,614	0.32	349
Maine	439	6,846	2,518	0.37	300
Maryland	1,749	33,222	10,313	0.31	365
Massachusetts	2,833	56,891	19,093	0.34	386
Michigan	3,444	76,923	25,648	0.33	430
Minnesota	1,784	34,204	13,217	0.39	369
Mississippi	797	11,910	4,649	0.39	287
Missouri	1,999	36,868	12,776	0.35	355
Montana	253	3,956	2,666	0.67	301
Nebraska	611	9,552	3,185	0.33	301
Nevada	443	8,088	4,150	0.51	351
New Hampshire	462	8,051	2,901	0.36	335
New Jersey	3,288	70,833	27,648	0.39	414
New Mexico	475	7,962	3,423	0.43	322
New York	7,566	170,402	44,564	0.26	433
North Carolina	2,608	43,009	18,696	0.43	317
North Dakota	222	3,434	1,418	0.41	297
Ohio	4,209	82,118	27,047	0.33	375
Oklahoma	1,078	19,488	7,217	0.37	348

TABLE 11.—12-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY UNEMPLOYMENT INSURANCE (UI) FOR PERIOD ENDING JUNE 1986—Continued

State	Average employment (thousands)	Total wages [1] (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly wages covered
Oregon	989	17,610	8,757	0.50	343
Pennsylvania	4,500	84,581	28,080	0.33	361
Puerto Rico	710	7,587	3,303	0.44	206
Rhode Island	421	7,171	3,181	0.44	327
South Carolina	1,246	19,983	7,434	0.37	309
South Dakota	244	3,096	1,121	0.36	265
Tennessee	1,799	30,534	10,975	0.36	326
Texas	6,386	125,738	41,182	0.33	379
Utah	562	9,741	4,467	0.46	334
Vermont	218	3,553	1,379	0.39	313
Virginia	2,272	40,579	13,950	0.34	344
Virgin Island	37	531	256	0.48	278
Washington	1,624	30,731	12,931	0.42	364
West Virginia	554	10,031	3,372	0.34	348
Wisconsin	1,916	34,064	13,571	0.40	342
Wyoming	192	3,644	1,416	0.39	365

[1] Total wages exceed taxable wages because wages from reimbursable employers are included in the former and because wage base is limited.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service.

Administration's Fiscal Year 1988 Financial Projections

Federal loans to State unemployment compensation programs

In its fiscal year 1988 budget, the administration projected total outstanding loans to State UC programs at $4.0 and $1.9 billion at the end of fiscal years 1987 and 1988, respectively. It also projected new loans in these years at $2.0 and $1.4 billion, respectively. Table 12 provides a breakdown of the projected new Federal loans and the loan balances in the States obtaining new loans for fiscal years 1987 and 1988. Louisiana, Ohio, and Texas account for 80 percent of the projected new loans in fiscal year 1987.

TABLE 12.—PROJECTED NEW FEDERAL LOANS TO STATE UNEMPLOYMENT COMPENSATION PROGRAMS IN FISCAL YEARS 1987 AND 1988

[In millions of dollars]

State	Outstanding loans (as of Dec. 31, 1986)	Fiscal year 1987		Fiscal year 1988	
		Loans	Balance	Loans	Balance
Alaska				60	29
Illinois	889		560		
Louisiana	737	500	840	400	930
Michigan	1,121		1,120		
Minnesota		140		110	
North Dakota	1	40	12	30	18
Ohio	472	300	165		
Oklahoma				110	46
Pennsylvania	894	160	590		194
Texas	243	800	420	600	570
West Virginia	215	90	184	60	120
Wisconsin	127		127		
Total	4,701	2,030	4,015	1,370	1,907

Note.—State projections have more variability than U.S. total projections and should be used with caution. Balance is for the end of the fiscal year.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services. Based on administration's fiscal year 1988 budget.

Interest charges

Table 13 classifies the projected interest charges on Federal loans to insolvent State UC programs at the end of fiscal years 1987 and 1988. The total projected charges are $0.13 and $0.14 billion in fiscal years 1987 and 1988, respectively.

Projected Federal unemployment tax credit reductions

Table 14 shows the State distributions of the projected additional Federal unemployment tax revenue and the credit rate reductions for fiscal year 1986. The credit rate reductions range from 0.9 percentage point to 1.2 percentage points for calendar year 1986.

TABLE 13.—PROJECTED INTEREST CHARGES ON FEDERAL LOANS TO INSOLVENT STATE UNEMPLOYMENT COMPENSATION PROGRAMS IN FISCAL YEARS 1987 AND 1988

Interest charges (in millions of dollars)	States	
	Fiscal year 1987	Fiscal year 1988
1–10	North Dakota	Alaska North Dakota Oklahoma
11–50	Ohio Texas West Virginia	West Virginia
51–100	Louisiana	Louisiana Texas

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services. Based on administration's fiscal year 1988 budget.

Table 14 shows that employers in Illinois, Ohio, and Pennsylvania are projected to pay 89 percent of the additional Federal unemployment taxes resulting from the projected credit reductions in 1986.

TABLE 14.—REDUCED FUTA CREDITS—FISCAL YEAR 1988 PRESIDENT'S BUDGET

State	1986 credit rate reduction	Additional Federal unemployment taxes [1] (estimated 1986 payments) (in millions)
Illinois	1.2	330
Louisiana	.9	78
Ohio	1.1	278
Pennsylvania	1.2	308
West Virginia	1.1	34
Total		1,028

[1] Payments due January 31, 1987.

Source: U.S. Department of Labor/ETA/UIS, Division of Actuarial Services.

Administrative Financing and Allocation

State unemployment insurance administrative expenses are Federally financed. A portion of revenue from the Federal unemployment tax (FUTA) is designated for administration and to maintain a system of public employment offices.

FUTA revenue flows into three Federal accounts in the Unemployment Trust Fund: (1) the Employment Security Administration Account (ESAA), (2) the Extended Unemployment Compensation Account (EUCA), and (3) the Federal Unemployment Account

(FUA). Authorized by title IX of the Social Security Act, ESAA finances administrative costs associated with Federal and State unemployment compensation and employment services.

Under current law, sixty percent of FUTA revenue is allocated to ESAA. Funds authorized for administration are limited to 95 percent of the estimated annual revenue that is expected to flow to ESAA from the Federal unemployment tax. The amount is estimated after transfer of FUTA receipts earmarked for the extended unemployment compensation account. Funds for administration may be augmented by three-eighths of the amount in ESAA at the beginning of the fiscal year, or $150 million, whichever is less, if the rate of insured unemployment is at least 15 percent higher than it was over the corresponding calendar quarter in the immediately preceding year.

Title III of the Social Security Act authorizes payment to each State, with an approved unemployment insurance law, such amounts as are deemed necessary for the proper and efficient administration of such law during the fiscal year. Allocations are based on (1) the population of the State, (2) an estimate of the number of persons covered by the State unemployment insurance law, (3) an estimate of the cost of proper and efficient administration of such law; and (4) such other factors as the Secretary of Labor finds relevant.

Subject to the limit of available resources, the allocation of State grants for administration is the summation of resources derived in three major areas, the Unemployment Insurance Service (UI), the Employment Service (ES), and Administrative Staff and Technical Services (AS&T)/Nonpersonal Services (NPS). Each area has its own allocation methodology subject to general constraints set forth in the Social Security Act.

Each year, as part of the development of the President's Budget, the Department of Labor in conjunction with the Department of Treasury, estimates revenue expected from FUTA and the appropriate amount which will be available for administration (and the Federal share of extended benefits). The estimate of FUTA revenues is based on several factors: (1) a wage base of $7,000 per employee, (2) a tax rate of 0.8 percent (0.48 percentage point for administration and 0.32 percentage point for extended benefits of which 0.2 percentage point is a temporary surtax), (3) the administration's projection of the level of unemployment and the growth in wages, and (4) the level of covered employment subject to FUTA. Additionally, a determination is made based on the administration's forecast for unemployment as to whether the rate will increase by at least 15 percent.

Each year the President's Budget sets forth an estimate of national unemployment in terms of the volume of unemployment claims per week. This is characterized as average weekly insured unemployment (AWIU). A portion of AWIU is expressed as "base" and the remainder as "contingency." At the present time, the base is set at the level of resources required to process an average weekly volume of 2.0 million weeks of unemployment.

Resources available to each State to administer its unemployment compensation program (i.e., process claims and pay benefits) are provided from either "base" funds or "contingency" funds. At

the beginning of the fiscal year, only the base funds are allocated while contingency funds are allocated on a needs basis as workload materializes. Base funds are distributed to the State for use throughout the fiscal year and are available regardless of the level of unemployment (workload) realized. If a State processes workloads in excess of the base level they receive the contingency funds determined by the extent of the resources required to process the additional workload.

The allocation of the base UI grant funds to each State is made by:

(1) projecting the workloads that each state is expected to process in the lowest-workload quarter of the given fiscal year.

These projections are then adjusted so that the sum across States for each workload item is equal to the budgeted base workload.

(2) determining the staff required to process each state's projected workload.

The staff requirements are computed by multiplying the projected workloads by minutes per unit (MPU) and dividing the result by the number of work hours per staff year for each State. The MPUs are derived from work measurement studies conducted in each State that establish the number of minutes required to perform specific tasks. The MPUs developed from the studies are necessarily reduced so that the total of computed staff years for each workload item across States equals the staff years available in the appropriation. The MPUs are reduced according to a complex mathematical formula that takes into account workload volume and the range of MPUs.

(3) multiplying of the final staff-year allocations for each State by the cost per staff year (i.e., State salary level) to determine dollar funding levels.

Each Department of Labor regional office may redistribute resources among the States in its area with national office approval.

The resources available for AS&T/NPS are also determined during the development of the President's budget. The AS&T function provides funding for the administrative staff and technical services which are part of the State's agency-wide overhead and are considered to benefit all UI and ES grant programs. Nonpersonal services include: supplies, travel, communications, premises and equipment.

The AS&T/NPS allocation process is accomplished in four areas. The first area, administration and management, provides each State with a set minimum number of positions, with additional positions above the minimum determined by the number of employment service and unemployment insurance positions allocated. Second, funding for nonpersonal services is provided by setting a minimum amount for each State and allocating additional funds based on UI and ES positions and the population density in each State. Third, for office space, the prior year actual cost per grant staff year is determined, then inflated by the national percentage increase for NPS, and finally multiplied by the projected ES and UI positions. Fourth, funding for automatic data processing (ADP) is provided based on prior year actual cost, then inflated by the national percentage increase for NPS. Adjustments are made each fiscal year to reflect changes in the mode of operation of each State

agency. There is also a component in the process which provides funding for ADP staff.

In any given year a hold harmless factor which assures that no State agency receives less than 95 percent of a prior year's level may be used. A last calculation is made to make pro rata adjustments to dollars actually available.

Recent Major Legislation

Major Federal laws passed by recent sessions of Congress and some of their provisions are:

(1) The Employment Security Amendments of 1970 (Public Law 91-373) expanded FUTA coverage primarily to small businesses, nonprofit organizations, and higher educational institutions. It also raised the taxable wage base from the original $3,000 to $4,200 in 1972; increased the minimum, net Federal unemployent tax rate from 0.4 to 0.5 percent in 1970; and created the Federal-State extended benefits program.

(2) The Unemployment Compensation Amendments of 1976 (Public Law 94-566), extended FUTA coverage primarily to State-local government workers and certain agricultural and domestic labor. It also raised the taxable wage base to $6,000 in 1978 and temporarily increased the minimum, net Federal unemployment tax rate from 0.5 to 0.7 percent in 1977.

(3) The Omnibus Budget Reconciliation Act of 1980 (Public Law 96-499) added among other provisions a denial of extended benefits to claimants under certain circumstances who have rejected a minimum wage job.

(4) The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) imposed interest charges up to 10 percent per annum under certain conditions on loans obtained by State UC programs after April 1, 1982. It also cut an estimated $3 to $4 billion from the Extended Benefits program in fiscal year 1983.

(5) The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) increased the taxable wage base from $6,000 to $7,000 and raised the minimum, net Federal unemployment tax rate to 0.8 percent in 1983. It also raised the gross tax and credit rates in 1985 to 6.2 and 5.4 percent, respectively. This leaves the minimum, net Federal rate unaffected, but raises the maximum, potential, net tax rate in States with delinquent loans from 3.4 to 6.2 percent. The Act also created the temporary Federal supplemental compensation program, which authorized 6 to 10 additional weeks of benefits through March 31, 1983.

(6) The Surface Transportation Assistance Act (Public Law 97-424), passed in the lame-duck session of Congress, added 2 to 6 weeks to the Federal Supplemental Compensation program for a combined maximum in that program of 8 to 16 weeks.

(7) The Social Security Amendments of 1983 (Public Law 98-21) extended the Federal supplemental compensation program through September 30, 1983, providing a maximum of 8 to 14 weeks of benefits. It also established conditions under which States could defer the payment of interest on loans from the Federal Unemployment Account and qualify for reduced FUTA credit reductions.

(8) The Federal Supplemental Compensation Amendments of 1983 (Public Law 98–135) extended the Federal Supplemental Compensation program through March 31, 1985, providing a maximum of 8 to 14 weeks of benefits.

(9) The Tax Reform Act of 1986 (Public Law 99–514) made all unemployment compensation taxable under the Federal personal income tax.

TABLE 15.—LEGISLATIVE CHANGES IN THE UNEMPLOYMENT COMPENSATION PROGRAM IN CALENDAR YEARS 1981, 1982, 1983, AND 1986

[In millions of dollars by fiscal years]

	1982	1983	1984	1985	1986	1987	1988
1981 (January 1982 estimates):							
Elimination of national trigger under the extended benefits program	−827	−1,273	−1,418	.....	.....	.....	.....
Raise State triggers to 5 percent plus 120 percent or 6 percent	−0	−1,152	−448	.....	.....	.....	.....
Claims for extended or additional compensation not included in determining rate of insured unemployment for extended benefit trigger calculation	−1,286	−1,283	−1,225	.....	.....	.....	.....
Require 20 weeks of work or equivalent wages for extended benefits	0	−4	−3	.....	.....	.....	.....
Limitations on unemployment benefits paid to ex-service members	−325	−376	−347	.....	.....	.....	.....
Federal unemployment compensation loans to States	−5	−157	−350	.....	.....	.....	.....
1982 (January 1983 estimates):							
Rounding UC benefits	.....	−0	−22	−21	−20	−19	.....
Extend Reed Act	.....	0	0	0	0	0	.....
Deferral of interest payment on UC loans	.....	50	400	150	−250	−250	.....
Treatment of school employees	.....	−7	−8	−9	−10	−11	.....
Short time compensation	.....	1	1	0	0	0	.....
Unemployment benefits paid to ex-service members	.....	132	111	117	109	101	.....
Taxation of unemployment compensation benefits	.....	−763	−734	−611	−618	−650	.....
Federal supplemental benefits	.....	2,570	.....	.....	.....	.....	.....
1983 (January 1984 estimates):							
Federal supplemental benefits	.....	.....	3,500	1,200	.....	.....	.....
Deferral of interest	.....	37	85	−137	−474	−465	.....
1986 (1986 estimates):							
Sequestration of extended benefits	.....	.....	.....	.....	1	0	0
Taxation of unemployment compensation	.....	.....	.....	.....	.....	230	764

Source: Congressional Budget Office.

APPENDIX H. STATISTICAL DATA ON UNEMPLOYMENT, EMPLOYMENT AND LABOR FORCE PROJECTIONS, DISLOCATED WORKERS, AND HISTORICAL INFORMATION ON THE UNEMPLOYMENT COMPENSATION PROGRAM

The following tables and charts provide statistical data on unemployment and historical information on the unemployment compensation program.

TABLE 1.—MONTHLY DATA FOR CIVILIAN UNEMPLOYMENT RATE AND INSURED UNEMPLOYMENT RATE SINCE 1970

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
Civilian Unemployment Rate—Total (Seasonally Adjusted)													
1970	3.9	4.2	4.4	4.6	4.8	4.9	5.0	5.1	5.4	5.5	5.9	6.1	4.9
1971	5.9	5.9	6.0	5.9	5.9	5.9	6.0	6.1	6.0	5.8	6.0	6.0	5.9
1972	5.8	5.7	5.8	5.7	5.7	5.7	5.6	5.6	5.5	5.6	5.3	5.2	5.6
1973	4.9	5.0	4.9	5.0	4.9	4.9	4.8	4.8	4.8	4.6	4.8	4.9	4.9
1974	5.1	5.2	5.1	5.1	5.1	5.4	5.5	5.5	5.9	6.0	6.6	7.2	5.6
1975	8.1	8.1	8.6	8.8	9.0	8.8	8.6	8.4	8.4	8.4	8.3	8.2	8.5
1976	7.9	7.7	7.6	7.7	7.4	7.6	7.8	7.8	7.6	7.7	7.8	7.8	7.7
1977	7.5	7.6	7.4	7.2	7.0	7.2	6.9	6.9	7.0	6.8	6.8	6.4	7.1
1978	6.4	6.3	6.3	6.1	6.0	5.9	6.2	5.9	6.0	5.8	5.9	6.0	6.1
1979	5.9	5.9	5.8	5.8	5.6	5.7	5.7	6.0	5.9	6.0	5.9	6.0	5.8
1980	6.3	6.3	6.3	6.9	7.5	7.6	7.8	7.7	7.5	7.5	7.5	7.2	7.1
1981	7.5	7.4	7.4	7.2	7.5	7.5	7.2	7.4	7.6	7.9	8.3	8.5	7.6
1982	8.6	8.9	9.0	9.3	9.4	9.6	9.8	9.8	10.1	10.4	10.7	10.7	9.7
1983	10.4	10.4	10.3	10.2	10.2	10.1	9.4	9.4	9.2	8.8	8.4	8.2	9.6
1984	8.0	7.8	7.8	7.8	7.5	7.2	7.5	7.5	7.4	7.3	7.1	7.2	7.5
1985	7.4	7.3	7.2	7.3	7.2	7.3	7.3	7.1	7.1	7.1	7.0	7.0	7.2
1986	6.8	7.2	7.2	7.1	7.2	7.1	7.0	6.8	7.0	6.9	6.9	6.7	7.0

UNEMPLOYMENT DATA—CONTINUED

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
Insured Unemployment Rate Under State Programs (Seasonally Adjusted)													
1970	2.5	2.7	2.8	3.2	3.5	3.6	3.6	3.7	4.0	4.4	4.4	4.0	3.4
1971	3.9	3.9	4.0	4.1	4.1	4.1	3.9	4.2	4.3	4.2	4.1	4.0	4.1
1972	3.7	3.7	3.6	3.6	3.6	3.5	3.7	3.4	3.4	3.2	3.2	3.2	3.5
1973	2.9	2.8	2.8	2.6	2.7	2.7	2.6	2.8	2.7	2.7	2.7	2.9	2.7
1974	3.1	3.2	3.3	3.2	3.2	3.3	3.3	3.4	3.5	3.7	4.4	5.0	3.5
1975	5.6	5.8	6.4	6.7	6.9	6.8	6.1	5.9	5.8	5.6	5.3	4.9	6.0
1976	4.6	4.3	4.3	4.4	4.5	4.5	4.6	4.6	4.7	4.7	4.7	4.4	4.6
1977	4.3	4.2	4.1	4.0	3.9	3.9	3.8	3.8	3.8	3.8	3.8	3.7	3.9
1978	3.5	3.7	3.6	3.3	3.2	3.2	3.3	3.4	3.2	3.1	2.9	3.2	3.3
1979	3.1	3.2	3.1	3.0	2.8	2.8	2.8	3.0	2.9	3.0	3.1	3.2	2.9
1980	3.3	3.3	3.4	3.7	4.2	4.4	4.4	4.3	4.2	4.0	3.8	3.6	3.9
1981	3.5	3.5	3.4	3.3	3.3	3.3	3.3	3.3	3.4	3.6	3.9	4.0	3.5
1982	4.2	4.0	4.3	4.6	4.5	4.7	4.7	4.7	5.0	5.2	5.3	4.8	4.6
1983	4.5	4.7	4.5	4.4	4.2	3.9	3.7	3.5	3.4	3.3	3.3	3.2	3.9
1984	2.9	2.8	2.9	2.8	2.8	2.7	2.7	2.7	2.7	2.8	2.7	3.0	2.8
1985	2.8	3.0	3.0	2.9	2.8	2.8	2.8	2.8	2.8	2.6	2.8	2.9	2.8
1986	2.7	2.8	2.9	2.8	2.8	2.9	2.8	2.9	2.8	2.8	2.8	2.7	2.8

TABLE 2.—STATE INSURED UNEMPLOYMENT RATES FOR CALENDAR YEARS 1981–85 AND RATES BY CALENDAR QUARTER FOR 1986 UNDER THE UNEMPLOYMENT COMPENSATION PROGRAM

[Percent]

	1981	1982	1983	1984	1985 [1]	1986			
						I	II	III	IV
Alabama	4.0	5.4	4.6	3.5	3.3	3.6	3.0	3.1	3.1
Alaska	7.0	7.1	6.7	6.2	7.1	9.7	8.6	6.7	7.2
Arizona	2.4	4.1	3.2	1.9	1.8	2.0	2.0	2.1	1.9
Arkansas	4.3	5.6	4.6	3.5	3.7	4.5	3.2	3.1	3.7
California	3.8	5.1	4.7	3.4	3.6	4.1	3.3	3.3	3.2
Colorado	2.1	3.0	3.1	2.1	2.3	NA	1.4	2.2	2.4
Connecticut	2.6	3.4	2.9	1.8	1.8	2.3	1.5	1.5	1.3
Delaware	3.5	3.5	2.6	2.0	1.6	2.5	2.3	2.0	1.1
District of Columbia	2.9	3.6	3.2	2.5	2.1	2.4	2.1	2.1	2.0
Florida	1.7	2.5	2.1	1.4	1.4	1.4	1.3	1.5	2.1
Georgia	2.5	3.4	2.5	1.8	1.8	2.0	1.7	1.8	1.6
Hawaii	3.0	3.5	3.4	2.9	2.5	2.3	2.3	2.1	1.9
Idaho	5.0	7.1	5.6	4.2	4.5	6.5	4.5	4.2	4.0
Illinois	4.2	5.4	4.8	3.1	3.2	3.9	3.0	2.4	2.4
Indiana	3.2	4.7	3.7	2.5	2.3	2.9	1.9	1.8	2.0
Iowa	2.8	4.4	3.7	2.7	3.0	4.1	2.6	2.3	2.6
Kansas	2.3	4.0	3.1	2.2	2.4	3.1	2.6	2.5	2.5
Kentucky	4.5	5.8	4.9	3.3	3.3	4.3	3.1	2.7	2.6
Louisiana	2.7	4.5	5.2	3.9	4.4	5.2	5.5	5.6	5.2
Maine	4.2	4.7	4.5	3.7	3.5	4.2	2.8	2.3	2.1
Maryland	3.1	4.2	3.5	2.3	2.2	2.9	1.9	1.8	1.7
Massachusetts	3.4	3.9	3.2	2.3	2.4	2.8	2.2	2.1	3.0
Michigan	5.8	7.3	4.7	3.4	3.2	4.2	3.0	3.0	3.2
Minnesota	2.8	4.0	3.1	2.3	2.6	3.9	2.4	1.7	2.0
Mississippi	3.9	5.8	5.0	3.7	3.7	4.1	4.0	4.0	3.7
Missouri	3.7	4.3	3.5	2.5	2.6	3.3	2.3	2.4	2.4
Montana	4.1	5.2	4.8	4.1	3.9	5.6	3.9	2.8	3.2
Nebraska	1.9	2.7	2.7	2.0	2.3	3.3	1.8	1.5	1.8
Nevada	3.4	4.6	4.0	2.9	2.8	3.5	2.6	2.4	2.5
New Hampshire	2.1	2.8	2.2	1.5	1.0	1.1	0.8	0.8	0.7
New Jersey	4.3	4.7	3.9	3.1	2.9	3.5	2.5	2.4	2.0
New Mexico	2.7	3.8	4.0	2.9	2.8	3.5	3.7	3.3	3.3
New York	3.3	3.8	3.5	3.0	2.8	3.1	2.5	2.3	2.2
North Carolina	3.0	4.7	3.1	2.2	2.3	2.5	1.9	1.6	1.6
North Dakota	2.7	3.3	3.5	3.0	3.1	5.0	3.1	1.0	2.5
Ohio	4.1	5.8	4.2	3.0	3.0	3.7	2.6	2.4	2.3
Oklahoma	1.4	3.0	3.0	2.0	2.4	3.0	3.5	3.6	2.9

TABLE 2.—STATE INSURED UNEMPLOYMENT RATES FOR CALENDAR YEARS 1981–85 AND RATES BY CALENDAR QUARTER FOR 1986 UNDER THE UNEMPLOYMENT COMPENSATION PROGRAM—Continued

[Percent]

	1981	1982	1983	1984	1985 [1]	1986			
						I	II	III	IV
Oregon	5.7	7.0	5.5	4.3	4.6	5.6	4.2	6.2	3.8
Pennsylvania	4.4	6.6	5.9	4.2	4.0	4.8	3.5	3.1	3.2
Puerto Rico	8.3	8.9	7.2	6.3	7.1	6.3	5.4	6.1	5.2
Rhode Island	4.9	5.9	4.7	3.5	3.6	4.3	2.9	2.8	2.2
South Carolina	3.7	5.5	3.6	2.5	2.9	2.8	1.5	2.2	1.9
South Dakota	1.9	2.2	1.7	1.2	1.6	2.4	1.3	1.0	1.1
Tennessee	3.7	5.0	3.6	2.5	2.7	3.3	2.3	2.0	2.2
Texas	1.1	2.0	2.4	1.5	1.6	2.2	2.5	2.8	2.7
Utah	3.1	4.7	4.0	2.7	2.4	3.2	2.3	2.1	2.3
Vermont	3.9	5.0	4.3	3.2	3.1	3.8	2.7	1.6	1.9
Virginia	1.9	2.4	1.8	1.2	1.2	1.5	1.0	0.9	0.9
Virgin Islands	3.6	4.5	4.6	3.9	2.7	2.4	6.8	1.9	1.4
Washington	4.9	6.5	5.6	4.4	4.4	5.0	3.9	3.6	3.8
West Virginia	5.7	7.1	7.6	4.9	4.6	5.6	4.2	3.5	3.6
Wisconsin	4.7	5.8	4.7	3.4	3.5	4.6	2.7	2.2	2.7
Wyoming	1.8	3.6	4.4	2.3	2.4	4.3	4.2	3.5	3.8
United States	3.5	4.6	3.9	2.8	2.8	3.4	2.7	2.6	2.6

Prepared by DOL/ETAUIS. Division of Actuarial Services.
NA-Not available.

TABLE 3.—SELECTED UNEMPLOYMENT RATES

[Monthly data seasonally adjusted]

Period	Unemployment rate (percent of civilian labor force in group)										
		By sex and age			By race		By selected groups				
	Total (all civilian workers)	Men 20 years and over	Women 20 years and over	Both sexes 16–19 years	White	Black and other	Experienced wage and salary workers	Married men, spouse present	Women who maintain families	Full-time workers	Part-time workers
1976	7.7	5.9	7.4	19.0	7.0	13.1	7.3	4.2	10.1	7.3	10.1
1977	7.1	5.2	7.0	17.8	6.2	13.1	6.6	3.6	9.4	6.6	9.9
1978	6.1	4.3	6.0	16.4	5.2	11.9	5.6	2.8	8.5	5.6	9.0
1979	5.8	4.2	5.7	16.1	5.1	11.3	5.5	2.8	8.3	5.3	8.8
1980	7.1	5.9	6.4	17.8	6.3	13.1	6.9	4.2	9.2	6.9	8.8
1981	7.6	6.3	6.8	19.6	6.7	14.2	7.3	4.3	10.4	7.3	9.4
1982	9.7	8.8	8.3	23.2	8.6	17.3	9.3	6.5	11.7	9.6	10.5
1983	9.6	8.9	8.1	22.4	8.4	17.8	9.2	6.5	12.2	9.5	10.4
1984	7.5	6.6	6.8	18.9	6.5	14.4	7.1	4.6	10.3	NA	NA
1985	7.2	6.2	6.6	18.6	6.2	13.7	6.8	4.3	10.4	NA	NA
1986	7.0	6.1	6.2	18.3	6.0	13.1	6.6	4.4	9.8	6.6	9.2

NA: Not Available.

Source: Department of Labor, Bureau of Labor Statistics.

TABLE 4.—SELECTED MEASURES OF UNEMPLOYMENT

[Monthly data seasonally adjusted, except as noted]

Period	Unemployment (thousands)	Percent distribution of unemployment by duration [1]				Percent distribution of unemployment by reason [1]			
		Less than 5 weeks	5–14 weeks	15–26 weeks	27 weeks and over	Job losers	Job leavers	Reentrants	New entrants
1977	6,991	41.8	30.5	13.1	14.7	45.3	13.0	28.1	13.6
1978	6,202	46.2	31.0	12.4	10.4	41.7	14.1	29.9	14.3
1979	6,137	48.1	31.7	11.5	8.7	42.9	14.3	29.4	13.3
1980	7,637	43.1	32.3	13.8	10.7	51.7	11.7	25.2	11.4
1981	8,273	41.7	30.7	13.6	14.0	51.6	11.2	25.4	11.9
1982	10,678	36.4	31.0	16.0	16.6	58.7	7.9	22.3	11.1
1983	10,717	33.3	27.4	15.4	23.9	58.4	7.7	22.5	11.3
1984	8,539	39.2	28.7	12.9	19.1	51.8	9.6	25.6	13.0
1985	8,312	42.1	30.2	12.3	15.4	49.8	10.6	27.1	12.5
1986	8,283	41.0	32.0	12.4	14.5	47.9	13.0	25.7	13.4

[1] Detail may not add to 100 percent because of rounding.

TABLE 5.—UNEMPLOYMENT RATES BY STATE AND SELECTED METROPOLITAN AREAS

[In percent]

State and area	September		October	
	1985	1986	1985	1986p
Alabama	8.1	9.7	8.0	9.4
Birmingham	6.6	8.7	6.5	8.3
Huntsville	5.5	7.7	5.5	7.6
Mobile	8.7	10.7	8.6	10.3
Montgomery	6.9	7.6	6.7	7.9
Tuscaloosa	5.6	7.6	6.3	7.2
Alaska	7.3	9.8	8.4	10.8
Arizona	6.5	6.9	6.2	6.9
Phoenix	5.3	5.7	5.1	5.8
Tucson	5.1	5.6	5.0	5.9
Arkansas	7.4	8.1	7.5	8.2
Fayetteville-Springdale	3.9	4.2	3.9	4.6
Fort Smith[1]	6.6	7.2	7.2	7.3
Little Rock-North Little Rock	5.8	7.1	5.9	7.3
Pine Bluff	8.7	8.1	8.1	8.3
California[2]	7.0	6.2	7.2	6.2
Anaheim-Santa Ana	4.8	3.7	4.7	4.0
Bakersfield	11.5	10.9	12.7	12.7
Fresno	9.9	8.3	12.9	11.7
Los Angeles-Long Beach[2]	6.7	7.5	6.9	5.9
Modesto	11.8	9.2	13.6	12.3
Oakland	6.6	5.1	6.5	5.6
Oxnard-Ventura	8.6	6.8	8.4	7.0
Riverside-San Bernardino	8.0	6.2	7.6	6.6
Sacramento	6.6	5.0	6.8	5.7
Salinas-Seaside-Monterey	8.5	6.7	8.8	8.0
San Diego	5.5	4.6	5.5	5.1
San Francisco	5.2	3.9	5.0	4.2
San Jose	6.5	4.9	6.4	5.4
Santa Barbara-Santa Maria-Lompoc	5.6	4.3	5.3	4.6
Santa Rosa-Petaluma	5.7	4.6	5.8	5.1
Stockton	10.2	8.1	11.6	10.2
Vallejo-Fairfield-Napa	6.8	5.4	7.1	6.3
Colorado	5.3	6.7	5.4	7.2
Boulder-Longmont	4.7	5.2	4.7	5.6
Denver	4.7	6.5	4.7	6.8
Connecticut	4.3	3.6	4.2	3.3
Bridgeport-Milford	5.2	4.5	5.1	4.1
Hartford	3.9	3.2	3.7	3.0
New Britain	4.8	4.0	4.6	3.5
New Haven-Meriden	4.2	3.4	4.2	3.2
Stamford	3.4	2.7	3.1	2.5
Waterbury	5.9	4.9	5.9	4.6
Delaware	4.2	3.9	4.2	3.6
Wilmington[1]	4.3	4.6	4.3	4.3
District of Columbia	8.2	8.4	8.1	8.1
Washington[1]	3.8	3.5	3.7	3.5
Florida[2]	6.5	6.3	5.3	5.8
Daytona Beach	5.1	5.2	4.1	5.2
Fort Lauderdale-Hollywood-Pompano Beach	5.0	4.7	4.3	4.4
Fort Myers-Cape Coral	5.1	4.5	4.4	4.2
Gainesville	3.5	4.1	2.9	3.2
Jacksonville	5.4	6.4	4.8	5.6
Lakeland-Winter Haven	13.8	12.9	10.1	10.7
Melbourne-Titusville-Palm Bay	4.9	6.3	4.2	7.2
Miami-Hialeah	7.9	7.0	6.6	6.5
Orlando	5.2	5.0	4.3	4.9
Pensacola	5.6	6.5	4.8	6.3
Sarasota	4.4	4.3	3.6	3.8
Tallahassee	4.1	3.7	3.3	4.0
Tampa-St. Petersburg-Clearwater	5.1	5.3	4.2	5.2
West Palm Beach-Boca Raton-Delray Beach	7.7	7.3	6.0	6.0

See footnotes at end of table.

TABLE 5.—UNEMPLOYMENT RATES BY STATE AND SELECTED METROPOLITAN AREAS—Continued

[In percent]

State and area	September		October	
	1985	1984	1985	1984p
Georgia	6.4	5.8	6.2	5.5
Albany	9.1	12.2	9.0	11.7
Athens	5.7	5.0	5.0	4.6
Atlanta	5.1	4.6	4.8	4.5
Augusta[1]	6.6	6.6	6.9	5.7
Columbus[1]	7.8	7.2	7.7	7.3
Macon-Warner Robins	7.4	5.9	6.9	5.7
Savannah	7.3	6.4	7.0	6.2
Hawaii	5.6	4.5	5.4	4.3
Honolulu	5.0	4.1	4.9	3.9
Idaho	6.4	7.1	6.1	6.9
Boise City	4.9	5.0	4.8	5.1
Illinois[2]	8.9	7.8	9.2	7.3
Aurora-Elgin	7.4	6.1	7.5	5.8
Bloomington-Normal	5.3	4.6	5.6	4.5
Champaign-Urbana-Rantoul	4.9	4.3	5.0	3.9
Chicago	8.5	7.4	8.8	6.9
Davenport-Rock Island-Moline[1]	10.1	10.1	10.4	8.7
Decatur	10.9	11.1	11.1	9.8
Joliet	8.0	7.0	8.2	6.7
Lake County	5.8	4.7	6.0	4.7
Kankakee	10.7	8.6	11.2	8.5
Peoria	10.5	9.4	11.0	7.7
Rockford	9.8	8.9	10.6	8.5
Springfield	6.4	5.6	6.7	5.0
Indiana	6.9	6.2	6.7	6.2
Anderson	6.3	5.5	6.1	5.5
Elkhart-Goshen	5.9	4.3	5.9	4.5
Evansville[1]	6.3	5.9	6.7	6.3
Fort Wayne	5.4	4.6	5.3	4.8
Gary-Hammond	10.6	13.2	10.2	12.6
Indianapolis	5.7	4.7	5.4	4.6
Lafayette	3.9	3.6	3.7	3.0
Muncie	7.7	6.6	7.0	6.3
South Bend-Mishawaka	6.3	5.1	6.0	4.8
Terre Haute	6.6	5.8	6.7	5.9
Iowa	7.0	6.1	6.8	5.7
Cedar Rapids	6.8	5.6	6.3	5.2
Des Moines	5.9	5.5	6.5	5.0
Dubuque	7.8	(3)	7.4	(3)
Iowa City	2.7	(3)	2.6	(3)
Sioux City[1]	7.9	7.7	7.4	7.3
Waterloo-Cedar Falls	14.7	11.5	11.9	10.3
Kansas	4.4	5.2	4.5	5.5
Lawrence	3.0	(3)	3.1	(3)
Topeka	4.8	5.0	4.9	5.2
Wichita	5.3	5.9	5.4	6.3
Kentucky	8.2	7.0	8.4	6.9
Lexington-Fayette	4.5	4.2	4.6	4.0
Louisville[1]	6.8	5.5	6.7	5.4
Owensboro	8.2	8.8	9.5	7.9
Louisiana	11.4	12.6	11.3	12.9
Alexandria	9.5	(3)	9.7	(3)
Baton Rouge	10.8	10.2	10.7	10.3
Houma-Thibodaux	11.5	18.5	11.3	18.8
Lafayette	9.2	14.9	9.4	15.4
Lake Charles	14.4	14.3	14.0	13.9
Monroe	9.5	9.4	9.5	10.1
New Orleans	11.0	10.9	10.7	10.9
Shreveport	9.7	11.3	9.6	11.6

See footnotes at end of table.

TABLE 5.—UNEMPLOYMENT RATES BY STATE AND SELECTED METROPOLITAN AREAS—Continued

[In percent]

State and area	September		October	
	1985	1986	1985	1986p
Maine	4.3	4.2	4.3	4.2
Lewiston-Auburn	5.7	5.3	5.7	5.2
Portland	2.7	2.6	2.6	2.6
Maryland	4.1	4.1	4.3	4.3
Baltimore	4.9	4.8	5.2	5.0
Massachusetts[2]	3.9	4.3	3.3	3.4
Boston	3.5	3.9	2.9	2.9
Brockton	4.3	4.7	3.5	3.9
Fall River[1]	5.9	6.3	5.6	5.0
Fitchburg-Leominster	4.5	5.3	3.8	4.6
Lawrence-Haverhill[1]	4.8	5.3	4.5	4.4
Lowell[1]	4.1	4.9	3.5	3.9
New Bedford	6.0	5.7	5.3	5.1
Pittsfield	3.7	3.8	3.3	3.3
Springfield	4.2	4.4	3.5	3.7
Worcester	3.8	4.9	3.1	3.3
Michigan[2]	9.8	8.3	9.6	8.1
Ann Arbor	6.6	4.6	5.6	3.8
Battle Creek	10.9	(3)	11.5	(3)
Benton Harbor	11.2	(3)	10.5	(3)
Detroit	9.1	8.0	8.9	7.8
Flint	12.2	12.0	11.2	12.2
Grand Rapids	8.3	7.1	7.9	6.9
Jackson	10.6	(3)	10.7	(3)
Kalamazoo	7.3	6.0	7.1	5.5
Lansing-East Lansing	8.0	6.7	8.0	6.3
Muskegon	12.9	(3)	13.5	(3)
Saginaw-Bay City-Midland	10.8	9.3	10.6	9.3
Minnesota	4.9	4.3	4.9	4.3
Duluth[1]	8.7	7.8	8.6	7.5
Minneapolis-St. Paul[1]	4.1	3.7	4.1	3.8
Rochester	3.6	(3)	3.6	(3)
St. Cloud	5.5	4.4	5.5	4.5
Mississippi	9.5	11.2	9.1	11.1
Jackson	6.7	7.9	6.7	8.1
Missouri	5.4	5.9	5.6	6.2
Kansas City[1]	3.9	4.5	4.2	4.6
St. Joseph	6.4	(3)	6.2	(3)
St. Louis[1]	6.6	7.1	6.8	7.4
Springfield	4.6	4.2	4.5	4.7
Montana	6.1	6.6	6.3	6.6
Nebraska	4.7	3.9	4.7	4.2
Lincoln	3.1	2.6	3.2	2.9
Omaha[1]	5.3	4.6	5.3	4.9
Nevada	7.3	5.1	7.5	5.2
Las Vegas	8.2	5.5	8.3	5.6
Reno	5.7	4.1	6.1	4.4
New Hampshire	3.2	2.6	3.1	2.4
Manchester	2.6	(3)	2.5	(3)
Nashua	3.7	2.9	3.4	2.7
New Jersey[2]	4.8	4.3	5.5	4.8
Atlantic City	5.6	(3)	8.7	(3)
Bergen-Passaic	4.6	4.0	5.1	4.4
Jersey City	7.6	6.8	8.4	7.6
Middlesex-Somerset-Hunterdon	3.8	3.3	4.4	3.6
Monmouth-Ocean	3.8	3.4	4.4	3.8
Newark	5.3	4.7	6.0	5.2
Trenton	3.9	3.6	4.4	3.9
Vineland-Millville-Bridgeton	7.5	(3)	8.8	(3)

See footnotes at end of table.

TABLE 5.—UNEMPLOYMENT RATES BY STATE AND SELECTED METROPOLITAN AREAS—Continued

[In percent]

State and area	September		October	
	1985	1986	1985	1986p
New Mexico	8.4	9.0	8.5	8.8
Albuquerque	6.5	6.5	6.6	6.6
Las Cruces	8.2	7.6	8.1	6.8
Santa Fe	5.0	5.1	5.2	5.3
New York[2]	6.4	5.8	6.6	5.5
Albany-Schenectady-Troy	4.9	4.9	5.2	4.6
Binghamton	6.2	5.7	6.4	4.8
Buffalo	6.7	7.1	7.1	6.1
Elmira	8.3	6.6	8.4	5.4
Glens Falls	6.2	5.8	6.9	6.0
Nassau-Suffolk	4.7	4.6	4.7	3.8
New York	7.4	6.1	7.6	6.3
New York City[2]	8.1	6.6	8.4	6.9
Orange County	5.1	5.0	5.3	4.3
Poughkeepsie	3.7	3.6	3.5	3.1
Rochester	4.8	5.5	4.9	4.9
Syracuse	5.6	7.6	6.1	6.7
Utica-Rome	6.8	6.3	7.3	5.8
North Carolina[2]	4.2	5.0	4.6	5.1
Asheville	3.8	5.0	4.0	5.3
Charlotte-Gastonia-Rock Hill[1]	4.2	4.5	4.4	4.4
Greensboro-Winston Salem-High Point	3.7	4.3	4.4	4.5
Raleigh-Durham	2.5	3.3	2.5	3.3
North Dakota	4.4	5.0	4.7	4.6
Bismarck	5.7	5.7	6.5	5.1
Fargo-Moorhead[1]	3.2	2.9	2.9	2.2
Grand Forks	2.6	2.7	2.4	2.8
Ohio[2]	9.0	8.4	9.0	7.8
Akron	9.2	8.2	8.8	7.5
Canton	10.5	(3)	11.0	(3)
Cincinnati[1]	7.0	6.5	7.1	5.9
Cleveland	8.8	7.9	8.5	7.5
Columbus	6.8	6.5	6.7	5.8
Dayton-Springfield	7.1	7.0	7.7	6.3
Toledo	8.0	8.7	7.9	7.9
Youngstown-Warren	11.0	(3)	11.3	(3)
Oklahoma	6.6	8.3	6.7	7.8
Enid	6.2	(3)	6.6	(3)
Lawton	5.0	5.3	5.1	5.1
Oklahoma City	5.4	7.0	5.5	6.4
Tulsa	6.8	8.6	6.9	8.3
Oregon	7.5	7.7	7.4	7.1
Eugene-Springfield	7.4	7.9	7.4	7.2
Portland	7.0	7.1	6.8	6.7
Salem	6.4	7.0	6.5	6.7
Pennsylvania[2]	7.1	6.4	7.1	5.7
Allentown-Bethlehem[1]	7.5	7.2	7.7	5.6
Altoona	8.7	7.3	9.7	6.6
Beaver County	15.2	10.5	14.9	11.2
Erie	7.2	8.5	7.4	7.6
Harrisburg-Lebanon-Carlisle	4.5	4.1	4.9	5.7
Johnstown	10.0	8.6	10.3	7.7
Lancaster	3.7	2.9	3.7	2.7
Philadelphia[1]	5.5	5.1	5.4	4.7
Pittsburgh	8.1	7.6	8.4	7.1
Reading	6.8	5.4	6.5	4.4
Scranton-Wilkes-Barre	8.0	7.6	8.1	6.8
Sharon	8.2	8.0	8.5	7.9
State College	6.1	5.7	7.1	5.2
Williamsport	7.4	5.8	6.9	5.7
York	5.9	4.8	5.8	3.9

See footnotes at end of table.

TABLE 5.—UNEMPLOYMENT RATES BY STATE AND SELECTED METROPOLITAN AREAS—Continued

[In percent]

State and area	September		October	
	1985	1986	1985	1986p
Rhode Island	4.2	3.3	3.8	3.3
Pawtucket-Woonsocket-Attleboro[1]	4.9	4.8	4.3	3.9
Providence	4.2	3.2	3.8	3.3
South Carolina	6.2	5.4	6.4	5.4
Charleston	4.2	4.2	4.2	4.4
Columbia	3.4	3.6	3.6	3.4
Greeenville-Spartanburg	5.6	4.4	5.7	4.5
South Dakota	4.0	3.6	4.5	4.2
Rapid City	4.2	3.7	4.7	4.8
Sioux Falls	3.7	2.9	4.4	3.5
Tennessee	7.2	7.0	7.1	7.1
Chattanooga[1]	6.6	6.2	6.6	6.2
Johnson City-Kingsport-Bristol[1]	6.6	6.3	6.4	6.4
Knoxville	6.4	6.6	6.5	6.9
Memphis LMA[1]	6.1	6.3	6.4	6.5
Nashville	4.2	4.6	4.2	4.5
Texas[2]	7.2	9.1	7.6	8.9
Abilene	5.5	9.5	6.3	9.3
Amarillo	5.9	6.6	6.0	6.2
Austin	4.6	5.8	5.2	5.8
Beaumont-Port Arthur	13.8	14.1	14.3	13.4
Brazoria	8.9	11.3	9.0	10.7
Brownsville-Harlingen	14.1	16.3	15.1	14.5
Bryan-College Station	5.1	(3)	5.2	(3)
Corpus Christi	9.5	12.1	9.8	12.6
Dallas	5.1	5.8	5.3	5.9
El Paso	10.5	13.5	11.0	11.9
Fort Worth-Arlington	5.6	6.6	5.5	6.7
Galveston-Texas City	10.4	11.3	11.0	11.4
Houston	8.0	10.5	8.4	10.2
Killeen-Temple	7.7	8.1	8.4	7.7
Laredo	12.4	(3)	13.7	(3)
Longview-Marshall	9.8	12.4	10.5	12.6
Lubbock	5.8	6.5	6.4	6.7
McAllen-Edinburg-Mission	19.2	20.0	19.0	20.0
Midland	5.7	12.2	6.1	11.7
Odessa	6.7	17.4	6.8	16.5
San Angelo	5.4	(3)	5.9	(3)
San Antonio	6.5	7.6	6.5	7.7
Sherman-Denison	7.6	(3)	6.8	(3)
Texarkana[1]	8.7	(3)	8.6	(3)
Tyler	7.2	9.4	8.3	9.2
Victoria	6.9	(3)	7.4	(3)
Waco	5.6	7.8	6.1	8.1
Wichita Falls	5.7	(3)	6.2	(3)
Utah	5.0	5.4	4.9	5.7
Provo-Orem	5.4	7.1	5.3	7.1
Salt Lake City-Ogden	4.7	4.8	4.6	5.1
Vermont	3.7	3.4	3.6	3.9
Burlington	3.1	3.0	2.6	2.8
Virginia	5.2	4.5	5.2	4.7
Charlottesville	4.4	(3)	4.7	(3)
Danville	9.8	(3)	9.6	(3)
Lynchburg	6.4	5.9	5.8	6.0
Norfolk-Virginia Beach-Newport News	4.8	4.6	4.9	4.8
Richmond-Petersburg	4.3	4.1	4.5	4.2
Roanoke	4.8	4.9	5.1	5.0
Washington	6.8	7.1	7.1	7.4
Seattle	5.9	6.0	6.1	6.2

See footnotes at end of table.

TABLE 5.—UNEMPLOYMENT RATES BY STATE AND SELECTED METROPOLITAN AREAS—Continued

[In percent]

State and area	September		October	
	1985	1986	1985	1986p
West Virginia	10.7	11.6	11.3	11.5
Charleston	8.9	9.1	9.2	9.0
Huntington-Ashland[1]	10.1	9.7	11.1	9.3
Parkersburg-Marietta[1]	10.2	10.4	10.5	10.2
Wheeling[1]	12.1	11.2	14.2	10.9
Wisconsin	5.8	6.2	5.9	6.4
Appleton-Oshkosh-Neenah	3.5	5.8	5.4	5.7
Eau Claire	5.7	5.6	5.5	5.5
Green Bay	4.8	5.4	4.9	5.5
Janesville-Beloit	6.6	7.2	6.5	10.8
Kenosha	10.2	13.1	10.1	9.7
La Crosse	5.6	5.3	4.9	5.3
Madison	3.6	3.9	3.4	4.2
Milwaukee	5.8	5.9	5.7	5.7
Racine	7.5	9.3	7.4	7.5
Sheboygan	5.3	5.1	5.9	5.1
Wausau	6.2	6.4	6.3	6.6
Wyoming	5.9	8.1	6.4	8.1

[1] Includes interstate portion of area located in adjacent State.

[2] Data are obtained directly from the Current Population Survey. (See "Explanatory Notes" for State and Area Labor Force Data in Employment and Earnings, Monthly.)

[3] Publication suspended.

p = preliminary.

NOTE: Data refer to place of residence. Estimates for 1985 have been benchmarked to 1985 Current Population Survey annual averages. Except in the 11 States and 2 areas designated by footnote 2, estimates for 1986 are provisional and will be revised when new benchmark information becomes available.

Employment and Labor Force Projections

Labor Force Changes

The work force and nature of work in the 1990's will depend upon demographic, economic, social, and technical factors, among others. The discussion which follows is based upon Bureau of Labor Statistics projections prepared in 1985. Examined are changes in the population, labor force, industries, and occupations that are expected by 1995.

Population changes directly affect employment opportunities. As the size and characteristics of the population change, so does the nature of goods and services demanded. Population changes also influence the labor force and the difficulty or ease with which one can find a job. Of particular interest are the growth rate of the population, changes in the age structure of the population, and changes in the population centers of the Nation.

The post-World War II "baby boom" has been followed by a "baby bust." Consequently, we can expect a slower growing labor force and one in which the average age will creep upward. In 1986 the civilian labor force totaled just under 118 million. By 1995 the level is projected to be about 129 million. Additions to the labor force will be lower over the next decade because fewer teenagers are in the population and there is expected to be a slowdown in the number and proportion of women seeking jobs. Nevertheless, women are projected to account for 6 out of every 10 new entrants to the labor force (see table 6).

Some 2 out of every 10 new entrants through 1995 are expected to be black—a direct result of the higher birth rates of this group over the past few decades. Furthermore, the black labor force will be younger than the labor force in general. The aging of the baby-boom, coupled with projected declines in labor force participation among older persons, will result in about 75 percent of the labor force in 1995 being between the ages of 25 and 54 (prime-age workers). Currently, about 66 percent of the labor force is made up of this age group. In fact, the growth in the size of the prime-age labor force is projected to be greater than the increase in the total labor force. The size of both the younger and older labor force is expected to decrease (see table 7). Labor force participation of older persons is expected to decline as a larger percentage of workers become eligible for pensions and select early retirement (see table 7).

Population shifts are expected to continue to the South and West. While the West is projected to have the fastest rate of population growth, the South is projected to have the largest absolute population increase. Population levels in the Midwest are expected to remain stable while the population in the Northeast is expected to decline. Furthermore, the Northeast will have the oldest age distribution with nearly 15 percent of its population aged 65 and over. On the other hand, the West is projected to have the youngest distribution with more than one-fifth of its population below the age of 15 and nearly 70 percent below the age of 44. The South and Midwest age distributions are projected to be around the national average.

The differences in the regions described above have a direct effect on the nature of the labor market. Rapidly growing regions demand more public services and usually have high rates of construction. At the same time, however, the competition for jobs is stronger in these areas. Thus, it is important that regional differences be taken into account when examining national labor force and occupational projections.

Another factor that will have an impact on an individual's ability to find a job is their educational level. The overall educational level of workers has increased significantly over the postwar period. For example, nearly 50 percent of workers between the ages of 25 and 34 today have completed at least 1 year of college and more than 25 percent have 4 or more years of college. This clearly puts less educated workers at a distinct disadvantage. Nearly 25 percent of recent college graduates have had to accept a position that does not require a college degree.

Employment Changes

That service-producing industries are projected to grow faster than goods-producing industries is of little surprise. The Bureau of Labor Statistics predicts that 9 out of 10 jobs created over the next decade will be in service-producing industries (see table 8). This group includes the following industries: transportation, communications, and public utilities; trade (wholesale and retail); finance, insurance, and real estate; services; and government. The services industry is projected to create the most new jobs by 1995. Business services, including data processing, temporary help agencies, and building services are expected to grow faster and add more new jobs than any other industry. The trade sector is projected to be the next largest growing industry including retail trade, eating and drinking places, and wholesale trade.

Employment in goods-producing industries (mining, construction, manufacturing, and agriculture) is projected to increase quite modestly over the upcoming decade (see table 8). In fact, the projections show employment in 1995 just over the peak reached in 1979. Durable goods manufacturing (computers, machinery, and electric components) show the most promise over this time period. On the other hand, nondurable manufacturing is expected to decline, especially in the food processing and textile and apparel industries. Employment in the construction industry is also expected to grow modestly.

From an occupational perspective, employment growth through 1995 is expected to depart from historical trends. The Bureau of Labor Statistics suggests two ways of looking at occupational employment projections. One is by the actual number of jobs expected to be added and the other is by rate of growth (see tables 9 and 10). The distinction is important because occupations currently with large numbers of workers could add a significant number of jobs but show a relatively low growth rate. On the other hand, occupations with few workers could show high rates of growth but actually add few new jobs. The 20 occupations with the largest job growth are generally those requiring a low level of skills: e.g., cashiers, janitors and cleaners, truck drivers, waiters and waitresses, salesworkers, and food preparation workers (see table 9). This list does

contain, however, computer programmers, computer systems analysts, electrical and electronics engineers, and electrical and electronics technicians and technologists which are also among the fastest growing occupations (see table 10). Nevertheless, computer and scientific and technical occupations account only for a small portion of the jobs that are projected to be added by 1995.

Just as there are occupations expected to grow over the next decade, there are occupations projected to decline. These are concentrated in industries which have been contracting over the past several years including apparel, textiles, railroad transportation, and agriculture. Other occupations are projected to decline because of changes in technology. These include stenographers, statistical clerks, and telephone installers and repairers (see table 11).

Replacement

When one examines labor force and employment projections, one must also take into account job openings that will result from turnover or replacement needs. Openings take place when individuals transfer to new jobs, stop working (for various reasons), or retire. Jobs resulting from replacement needs are projected to be the source of most job openings through 1995. In 1983–84, the Bureau of Labor Statistics estimates that replacements accounted for 81 percent of all job openings.

Replacement needs vary significantly across occupations (see table 12). Those that require little education and training have high separation rates. Many of these jobs are part-time and employ a large number of young workers. On the other hand, jobs requiring high educational levels or significant training have low replacement rates.

What is important to remember is that job replacement is the major source of employment opportunities in the U.S. economy. If the data for 1983–84 should be typical through 1995, we see that looking at employment growth by itself will not give a good indication of where the employment opportunities will develop over this time period.

TABLE 6.—CIVILIAN LABOR FORCE, BY SEX, AGE, AND RACE, ACTUAL 1975–84, AND MIDDLE GROWTH PROJECTIONS TO 1995

Group	Actual			Projected	
	1975	1980	1984	1990	1995
Total, 16 years and over (thousands)	93,775	106,940	113,544	122,653	129,168
Men	56,299	61,453	63,835	67,146	69,282
16 to 24	12,371	13,606	12,727	11,163	10,540
25 to 54	34,991	38,712	42,302	48,079	51,200
55 and over	8,938	9,135	8,805	7,904	7,542
Women	37,475	45,487	49,704	55,507	59,886
16 to 24	10,250	11,696	11,260	10,089	9,623
25 to 54	21,860	27,888	32,360	39,632	44,519
55 and over	5,365	5,904	6,084	5,786	5,744
White	82,831	93,600	98,492	105,467	110,086
Black	9,163	10,865	12,033	13,602	14,796
Total, 16 years and over (percent)	100.0	100.0	100.0	100.0	100.0
Men	60.0	57.5	56.2	54.7	53.6
16 to 24	13.2	12.7	11.2	9.1	8.2
25 to 54	37.3	36.2	37.3	39.2	39.6
55 and over	9.5	8.5	7.8	6.4	5.8
Women	40.0	42.5	43.8	45.3	46.4
16 to 24	10.9	10.9	9.9	8.2	7.4
25 to 54	23.3	26.1	28.5	32.3	34.5
55 and over	5.7	5.5	5.4	4.7	4.4
White	88.3	87.5	86.7	86.0	85.2
Black	9.9	10.2	10.6	11.1	11.5

Source: Bureau of Labor Statistics.

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TABLE 7.—CIVILIAN LABOR FORCE AND PARTICIPATION RATES BY SEX, AGE, AND RACE, ACTUAL 1975–84, AND MIDDLE GROWTH PROJECTION FOR 1995

Group	Participation rate			Labor force (thousands)		
	Actual		Projected	Actual		Projected
	1975	1984	1995	1975	1984	1995
Total, 16 years and over	61.2	64.4	66.6	93,775	113,544	129,168
Men	77.9	76.4	75.3	56,299	63,835	69,282
16 to 19	59.1	56.0	57.9	4,805	4,134	3,750
20 to 24	84.5	85.0	87.3	7,565	8,594	6,790
25 to 34	95.3	94.4	93.7	14,192	18,488	18,247
35 to 44	95.6	95.4	94.3	10,398	14,037	19,232
45 to 54	92.1	91.2	90.4	10,401	9,776	13,721
55 to 64	75.6	68.5	62.6	7,023	7,050	6,119
65 and over	21.6	16.3	11.0	1,914	1,755	1,423
Women	46.3	53.6	58.9	37,475	49,704	59,886
16 to 19	49.1	51.8	51.2	4,065	3,809	3,307
20 to 24	64.1	70.4	76.3	6,185	7,451	6,316
25 to 34	54.9	69.8	81.1	8,673	14,234	16,168
35 to 44	55.8	70.1	80.5	6,505	10,896	16,943
45 to 54	54.6	62.9	71.3	6,683	7,230	11,408
55 to 64	40.9	41.7	42.7	4,323	4,911	4,695
65 and over	8.2	7.5	5.5	1,042	1,173	1,049
White	61.5	64.6	66.8	82,831	98,492	110,086
Men	78.7	77.1	75.8	50,324	56,062	59,894
16 to 24	74.4	75.0	77.0	10,931	10,977	9,051
25 to 54	95.1	94.8	94.0	31,225	37,067	44,062
55 and over	49.7	42.2	33.3	8,167	8,016	6,781
Women	45.9	53.3	58.4	32,508	42,431	50,192
16 to 24	59.0	65.5	68.3	8,988	9,706	8,175
25 to 54	54.3	68.0	78.0	18,732	27,378	37,090
55 to over	22.7	21.8	18.7	4,788	5,346	4,927
Black	58.8	62.2	65.8	9,263	12,033	14,796
Men	71.0	70.8	69.5	5,016	6,126	7,215
16 to 24	60.3	62.3	53.4	1,237	1,462	1,146
25 to 24	88.6	88.1	86.2	3,109	4,041	5,528
55 to over	44.7	36.2	29.5	670	623	541
Women	48.9	55.2	62.7	4,247	5,907	7,581
16 to 24	45.5	49.7	50.9	1,078	1,291	1,140
25 to 54	60.9	70.6	82.2	2,651	3,994	5,791
55 and over	26.2	25.4	23.4	517	621	650

Source: Bureau of Labor Statistics.

TABLE 8.—EMPLOYMENT BY MAJOR SECTOR, 1959–95

Economic sector	Employment (in thousands) [1]					
	Actual				Projected [2]	
	1959	1969	1979	1984	1990 Moderate	1995 Moderate
Total	67,784	81,508	101,471	106,841	116,865	122,760
Agriculture	5,583	3,622	3,340	3,293	3,164	3,059
Nonagriculture	62,201	77,886	98,131	103,548	113,701	119,700
Government (including enterprises)	8,083	12,195	15,947	15,984	16,596	17,144
Federal	2,233	2,758	2,773	2,807	2,790	2,800
State and local	5,850	9,437	13,174	13,177	13,806	14,344
Private	54,118	65,691	82,184	87,564	97,105	102,556
Mining	614	501	704	651	659	631
Construction	3,910	4,374	5,879	5,920	6,189	6,636
Manufacturing	17,018	20,467	21,401	19,779	20,913	21,124
Durable	9,582	12,080	12,985	11,744	12,872	13,216
Nondurable	7,436	8,387	8,416	8,035	8,041	7,908
Transportation, communications, and publcic utilities	4,255	4,637	5,414	5,500	5,957	6,304
Trade	13,492	16,671	22,311	24,290	27,106	28,272
Finance, insurance, and real estate	2,959	3,859	5,514	6,296	6,991	7,397
Services	9,591	13,326	19,635	23,886	28,142	31,170
Private households	2,279	1,856	1,326	1,242	1,148	1,023
	Percent distribution					
Total	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	8.2	4.4	3.3	3.1	2.7	2.5
Nonagriculture	91.8	95.6	96.7	96.9	97.3	97.5
Government (including enterprises)	11.9	15.0	15.7	15.0	14.2	14.0
Federal	3.3	3.4	2.7	2.6	2.4	2.3
State and local	8.6	11.6	13.0	12.3	11.8	11.7
Private	79.8	80.6	81.0	82.0	83.1	83.5
Mining	.9	.6	.7	.6	.6	.5
Construction	5.8	5.4	5.8	5.5	5.3	5.4
Manufacturing	25.1	25.1	21.1	18.5	17.9	17.2
Durable	14.1	14.8	12.8	11.0	11.0	10.8
Nondurable	11.0	10.3	8.3	7.5	6.9	6.4
Transportation, communications, and public utilities	6.3	5.7	5.3	5.1	5.1	5.1
Trade	19.9	20.5	22.0	22.7	23.2	23.0
Finance, insurance, and real estate	4.4	4.7	5.4	5.9	6.0	6.0
Services	14.1	16.3	19.4	22.4	24.1	25.4
Private households	3.4	2.3	1.3	1.2	1.0	.8

[1] Includes wage and salary jobs, the self-employed, and unpaid family workers.
[2] Under moderate scenariu.

Source: Bureau of Labor Statistics.

TABLE 9.—OCCUPATIONS WITH THE LARGEST JOB GROWTH, 1984–95

[Numbers in thousands]

Occupation	Employment		Change in employment 1984–95		Percent of total job growth 1984–95
	1984	1995	Number	Percent	
Cashiers	1,902	2,469	556	29.8	3.6
Registered nurses	1,377	1,829	452	32.8	2.8
Janitors and cleaners, including maids and housekeeping cleaners	2,940	3,383	443	15.1	2.8
Truckdrivers	2,484	2,911	428	17.2	2.7
Waiters and waitresses	1,625	2,049	424	26.1	2.7
Wholesale trade salesworkers	1,248	1,617	369	29.6	2.3
Nursing aides, orderlies, and attendants	1,204	1,552	348	28.9	2.2
Salespersons, retail	2,732	3,075	343	12.6	2.2
Accountants and auditors	882	1,189	307	34.8	1.9
Teachers, kindergarten and elementary	1,381	1,662	281	20.3	1.9
Secretaries	2,797	3,064	268	9.6	1.7
Computer programmers	341	586	245	71.7	1.5
General office clerks	2,398	2,629	231	9.6	1.4
Food preparation workers, excluding fast food	987	1,205	219	22.1	1.4
Food preparation and service workers, fast food	1,201	1,417	215	17.9	1.4
Computer systems analysts, electronic data processing	308	520	212	68.7	1.3
Electrical and electronics engineers	390	597	206	52.8	1.3
Electrical and electronics technicians and technologists	404	607	202	50.0	1.3
Guards	733	921	188	25.6	1.2
Automotive and motorcycle mechanics	922	1,107	185	20.1	1.2
Lawyers	490	665	174	35.5	1.1
Cosmetologists and related workers	524	674	150	28.7	.9
Cooks, restaurant	463	601	138	29.7	.9
Maintenance repairers, general utility	878	1,015	137	15.6	.9
Bookkeeping, accounting, and auditing clerks	1,973	2,091	118	6.0	.7
Bartenders	400	512	112	27.9	.7
Computer operators, excluding peripheral equipment	241	353	111	46.1	.7
Physicians and surgeons	476	585	109	23.0	.7
Licensed practical nurses	602	708	106	17.6	.7
Carpenters	944	1,046	101	10.7	.6
Switchboard operators	347	447	100	28.7	.6
Food service and lodging managers	657	746	89	13.6	.6
Electricians	545	633	88	16.2	.6

TABLE 9.—OCCUPATIONS WITH THE LARGEST JOB GROWTH, 1984–95—Continued

[Numbers in thousands]

Occupation	Employment		Change in employment 1984–95		Percent of total job growth 1984–95
	1984	1995	Number	Percent	
Teachers aides and educational assistants	479	566	88	18.3	.6
Blue-collar worker supervisors	1,470	1,555	85	5.8	.5
Receptionists and information clerks	458	542	83	18.2	.5
Mechanical engineers	237	317	81	34.0	.5

Source: Bureau of Labor Statistics.

TABLE 10.—FASTEST GROWING OCCUPATIONS, 1984–95

[Numbers in thousands]

Occupation	Employment		Change in employment 1985–95		Percent of total job growth 1984–95
	1984	1995	Number	Percent	
Paralegal personnel	53	104	51	97.5	0.3
Computer programmers	341	586	245	71.7	1.5
Computer systems analysts, electronic data processing (EDP)	308	520	212	68.7	1.3
Medical assistants	128	207	79	62.0	.5
Data processing equipment repairers	50	78	28	56.2	.2
Electrical and electronics engineers	390	597	206	52.8	1.3
Electrical and electronics technicians and technologists	404	607	202	50.7	1.3
Computer operators, except peripheral equipment	241	353	111	46.1	.7
Peripheral EDP equipment operators	70	102	32	45.0	.2
Travel agents	72	103	32	43.9	.2
Physical therapists	58	83	25	42.2	.2
Physician assistants	25	35	10	40.3	.1
Securities and financial services sales-workers	81	113	32	39.1	.2
Mechanical engineering technicians and technologists	55	75	20	36.6	.1
Lawyers	490	665	174	35.5	1.1
Correction officers and jailers	130	175	45	34.9	.3
Accountants and auditors	882	1,189	307	34.8	1.9
Mechanical engineers	237	317	81	34.0	.5
Registered nurses	1,377	1,829	452	32.8	2.8
Employment interviewers, private or public employment service	72	95	23	31.7	.1

Source: Bureau of Labor Statistics.

TABLE 11.—FASTEST DECLINING OCCUPATIONS, 1984–95

[Numbers in thousands]

Occupation	Employment		Percent decline in employment
	1984	1995	
Stenographers	239	143	−40.3
Shoe sewing machine operators and tenders	33	22	−31.5
Railroad brake, signal, and switch operators	48	35	−26.4
Rail car repairers	27	21	−22.3
Furnace, kiln, or kettle operators and tenders	63	50	−20.9
Shoe and leather workers and repairers, precision	43	35	−18.6
Private household workers	993	811	−18.3
Station installers and repairers, telephone	111	92	−17.4
Sewing machine operators, garment	676	563	−16.7
Textile machine operators, tenders, settlers, and set-up operators, winding	279	235	−15.7
Machinery maintenance mechanics, textile machines	26	22	−14.8
Statistical clerks	93	81	−12.7
Industrial truck and tractor operators	389	342	−11.9
Central office operators	77	68	−11.5
Farmworkers	1,079	958	−11.2
College and university faculty	731	654	−10.5
Farm and home management advisers	27	24	−9.6
Extruding and drawing machine setters and set-up operators, metal and plastic	28	25	−9.1
Pressing machine operators and tenders, textile, garment and related	116	106	−8.8
Postal service clerks	317	290	−8.5

Source: Bureau of Labor Statistics.

TABLE 12.—JOB OPENINGS, 1983–84

[In thousands]

Occupational group	Total openings	Employment change [1]	Replacement needs	
			Number	Percent of total openings
Total, all occupations	22,250	4,171	18,079	81.3
Executive, administrative, and managerial	2,017	799	1,238	61.4
Professional specialty	1,838	466	1,372	74.6
Technicians and related support	504	119	385	76.4
Sales occupations	3,104	764	2,340	75.4
Administrative support, including clerical	3,491	327	3,164	90.6
Private household occupations	402	13	389	96.8
Service workers, except private household	3,476	282	3,194	91.9

TABLE 12.—JOB OPENINGS, 1983–84—Continued

[In thousands]

Occupational group	Total openings	Employment change [1]	Replacement needs	
			Number	Percent of total openings
Farming, forestry, and fishing	696	(−100)	696	100.0
Precision production, craft, and repair.....	2,566	729	1,837	71.6
Machine operators, assemblers, and inspectors	1,750	240	1,510	86.3
Transportation and material moving occupations	1,052	266	786	74.7
Handlers, equipment cleaners, helpers, and laborers.....	1,436	266	1,170	81.5

[1] Calculated by subtracting 1983 annual average employment from 1984 annual average employment. Where the change is negative, replacement needs are the sole source of openings.

Source: Bureau of Labor Statistics.

Dislocated Workers

In recent years, the phrase "structurally unemployed" has become synonymous with "dislocated workers." Whether because of heightened international competition, more pervasive technological change, or continuing shifts in the pattern of domestic consumption, some adult workers with lengthy, stable work histories have lost and in some instances are still losing their jobs. Through no fault of their own, these individuals are being permanently laid off; they are unlikely to be recalled by their former employers as typically would be the case after recovery from a recession. Depending upon their skill level, demographic characteristics, and area of residence, some dislocated workers are likely to experience great difficulty finding other, comparable jobs.

During the back-to-back recessions of the early 1980's debate often occurred about whether the blue-collar factory workers being laid off in large numbers were all structurally unemployed, or whether most were cyclically unemployed and would have good reemployment prospects once the economy turned around. This debate prompted analysts to try to estimate the number of "truly" dislocated workers; i.e., those who would face dim reemployment opportunities even after an economic recovery. According to the various estimates made during the recession years, anywhere from as few as 100,000 to as many as 2.2 million persons might belong to the dislocated worker group, depending upon how it was defined.[1]

[1] Bendick, Marc, and Judith Radlinski Devine. Workers Displaced by Economic Change: Do They Need Federal Employment and Training Assistance? In National Commission for Employment Policy. The Federal Interest in Employment and Training, Seventh Annual Report. Washington, 1981, p. 196; and U.S. Congressional Budget Office. Dislocated Workers: Issues and Federal Options. Washington, July 1982, p. 5, 38–39.

Because much of our knowledge about dislocated workers was indirect and anecdotal in the early 1980's, the U.S. Bureau of Labor Statistics (BLS) was asked to gather more precise information about the group. A special supplement to the Current Population Survey was designed and asked of survey respondents. The first survey's results cover the labor force experience of dislocated workers between January 1979 and January 1984; the second survey round covers their labor force activity between January 1981 and January 1986. The following analysis will examine the most recent survey's results and note differences between the earlier and later time periods when appropriate.[2]

Characteristics of the dislocated worker population

A total of 10.8 million workers age 20 or older lost jobs between January 1981 and January 1986 due to plant closings or relocations, slack work, or abolishment of a position or shift. More than half of those workers had not been at their jobs for a long period, however. Since dislocated workers, by widely accepted definition, are supposed to have had a strong attachment to their former jobs, the BLS established a cutoff of at least 3 years job tenure on the jobs that they lost. Based upon this criteria, in the 5-year period, there were about 5.1 million dislocated workers.

Most were in their prime working years, white, male, in blue-collar factory occupations, and living in the Midwest. As shown by the data in table 13, about half of the 5.1 million were men between 25 and 54 years old. Nearly three out of every five were white men. A similar proportion had worked in the unskilled and semiskilled blue-collar occupations of operators, fabricators, and laborers (36 percent) or the skilled blue-collar occupations of precision production, craft and repair (20 percent). Half had lost jobs in manufacturing industries, with one-third formerly employed by durable goods manufacturers (e.g., nonelectrical and electrical machinery, transportation equipment, primary metals). More than one out of five lived in the East North Central region, which includes Illinois, Indiana, Michigan, Ohio, and Wisconsin.

Their reemployment experience

By January 1986, 67 percent of dislocated workers had found new jobs. With two additional years of economic expansion (1984 and 1985), the proportion of dislocated workers with jobs in January 1986 was 7 percentage points higher than the level found in January 1984 among the first survey group. About 18 percent of the second survey group were still unemployed as opposed to 27 percent of the first group. The proportion of individuals no longer in the labor force remained unchanged between the two time periods, indicating that all of the improvement in dislocated workers' employment status was due to their finding jobs rather than their withdrawing from the labor force.

Some characteristics appear to be related to how successful dislocated workers are at becoming reemployed. Depending upon an in-

[2] Flaim, Paul and Ellen Sehgal. Displaced Workers of 1979–83: How Well Have They Fared? Monthly Labor Review, June 1985, p. 3–16; and U.S. Bureau of Labor Statistics. Reemployment Increases Among Displaced Workers, USDL 86–414. Washington, October 14, 1986. 12 p.

dividual's age, occupation, and geographic location, there was substantial variation around the overall reemployment rate of 67 percent.

Reemployment difficulties increased with age. Over 70 percent of workers between 20 and 54 years old had found new jobs, compared to just over 40 percent of workers age 55 or older. In addition, a large share of older workers left the labor force rather than continuing to look for work. This behavior was particularly true for older men, 40 percent of whom had left the labor force. Among these older men, labor force withdrawal was much more prevalent for those age 65 or older, some of whom probably chose retirement over unemployment.

The occupations of dislocated workers influenced their reemployment chances, as well. The more skilled the occupation of the worker, the data suggest, the greater the prospect of their having found work. Nearly three out of four managerial and professional workers, as well as a like proportion of technical workers, were in new jobs. Close to 7 out of 10 skilled blue-collar workers (i.e., those formerly in precision production, craft, and repair jobs) found other work. Alternatively, among the less skilled blue-collar group of operators, fabricators, and laborers, less than two-thirds were reemployed. Just over half of the workers formerly in service occupations found new jobs.

Area of residence also affected the likelihood of dislocated workers having found other employment. Just as workers who lost their jobs were concentrated in the East North Central region, one out of four dislocated workers still unemployed in January 1986 lived in the region. Moreover, of the 233,000 workers in the East North Central who remained jobless in January 1986, somewhat under one-third had been out of work at least 6 months.

The dependence of the East North Central's economy on so-called declining manufacturing industries has contributed to its low rate of reemployment.[3] The same dependence has hampered reemployment of dislocated workers in the Middle Atlantic, East South Central, and West North Central regions. Much of the regions' workers were employed by the primary metals, fabricated metals, nonelectrical machinery, and transportation equipment industries. During the two recessions to date in the 1980s, these manufacturing industries laid off large numbers of workers. Through 1985, manufacturing employment in several States comprising these regions (e.g., Illinois, Indiana, Iowa, Michigan, New Jersey, Ohio, and Pennsylvania) failed to regain prerecession (1979) levels. Contraction in these industries meant employment cutbacks in other industries that supplied them with raw materials, parts, and equipment. It also meant reduced spending and fewer jobs at area stores, restaurants, and other consumer-related establishments. As a consequence, dislocated workers in these regions faced a very slack and highly competitive labor market.

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[3] U.S. Library of Congress, Congressional Research Service. Employment Trends in the 1980s from a National, Industrial, and Geographic Perspective. CRS Report no. 86-130E, by Linda LeGrande and Mark Jickling. Washington, July 7, 1986, p. 13, 20-22, and 29.

Reemployment at comparable jobs?

While dislocated workers with new jobs are better off than their still unemployed counterparts, the new jobs do not necessarily afford them the standard of living which they previously had enjoyed. In many instances, the hours of work and wages for reemployed dislocated workers are less favorable in their new jobs.

Of the 3.2 million dislocated workers reemployed in January 1986, about 2.7 million previously held full-time jobs. Although most of these former full-time workers were able to obtain full-time jobs once again, 1 out of 10 (333,000) was reemployed on a part-time basis. Because they are now working fewer hours, their current earnings are apt to be substantially lower than their predisplacement, full-time pay.

Even among the nearly 2.7 million dislocated workers again employed in full-time wage and salary jobs, about 40 percent took pay cuts. The prevalence of pay cuts and the size of the cuts appear to be associated with the industries in which jobs were lost. Generally, former full-time manufacturing workers were the hardest hit: 44 percent were in lower paying jobs; 31 percent were in jobs paying at least one-fifth less than they previously earned. Among manufacturing workers, 61 percent of workers displaced from the relatively high-paying steel industry were earning less than they had on their former jobs.

Update and conclusions

In light of the fairly sluggish rate of economic growth since January 1986, it is unlikely that very many of the 913,000 dislocated workers still unemployed at that time have since found new jobs. Between January 1986 and December 1986, the civilian unemployment rate basically remained unchanged. It fluctuated slightly within the low 7-percent range, dropping below that level in just 4 months of the year.

In January 1986, there were 7.8 million unemployed persons. Dislocated workers still jobless at that time accounted for 11.7 percent of the Nation's civilian unemployment. In January 1984, the ending date of the first dislocated worker survey, there were almost 9 million unemployed individuals. Dislocated workers who were without jobs at that time accounted for 14.4 percent of national civilian unemployment. Thus, dislocated workers represent a relatively small, and decreasing, share of the Nation's jobless.

TABLE 13.—SELECTED INFORMATION ON THE REEMPLOYMENT EXPERIENCE OF DISLOCATED WORKERS, JANUARY 1986

Characteristic	Number who lost jobs (in thousands)	Percent distribution		
		Employed	Unemployed	Not in the labor force
Total, 20 years or older	5,130	66.9	17.8	15.3
20 to 24 years old	222	69.1	23.2	7.7
25 to 54 years old	3,950	72.5	18.1	9.4
65 years or older	169	23.4	4.3	72.4

TABLE 13.—SELECTED INFORMATION ON THE REEMPLOYMENT EXPERIENCE OF DISLOCATED WORKERS, JANUARY 1986—Continued

Characteristic	Number who lost jobs (in thousands)	Percent distribution		
		Employed	Unemployed	Not in the labor force
Men, 20 years or older	3,321	70.9	18.6	10.5
Women, 20 years or older	1,810	59.6	16.2	24.1
Whites, 20 years or older	4,452	68.2	16.2	15.6
Blacks, 20 years or older	581	57.7	29.2	13.1
Hispanics, 20 years or older	311	56.6	27.2	16.1
Occupation of lost job:				
Managerial and professional	782	74.1	14.1	11.7
Technical, sales, and administrative support	1,125	68.0	12.8	19.2
Technicians and related	174	76.5	11.7	11.8
Sales	447	65.1	11.9	23.0
Administrative support, including clerical	504	67.6	13.9	18.5
Service occupations	254	53.5	22.6	23.9
Precision production, craft, repair	1,018	68.5	18.2	13.3
Operators, fabricators, and laborers	1,870	64.0	21.4	14.6
Farming, forestry, and fishing occupations	80	72.1	19.1	8.9
Industry of lost job:				
Private nonfarm, wage and salary workers	4,772	67.2	17.6	15.2
Mining	175	67.4	17.4	15.2
Construction	316	74.8	16.6	8.6
Manufacturing	2,550	65.9	18.2	15.9
Transport and public utilities	386	66.9	20.0	13.1
Wholesale and retail trade	689	66.3	12.4	21.3
Finance, insurance, and real estate	107	73.5	12.5	14.0
Services	540	68.4	21.4	10.2
Area of residence:				
New England	226	74.3	9.7	16.0
Middle Atlantic	733	60.3	22.1	17.6
East North Central	1,149	65.2	20.3	14.5
West North Central	384	68.5	16.1	15.4
South Atlantic	744	71.9	14.0	14.1
East South Central	397	62.5	21.2	16.3
West South Central	610	66.1	16.9	17.0
Mountain	240	72.5	14.2	13.3
Pacific	648	69.4	16.7	13.9

Source: U.S. Bureau of Labor Statistics. Reemployment Increases Among Displaced Workers, USDL 86-414. Washington, Oct. 14, 1986. 12 p.

TABLE 14.—EXHAUSTIONS—REGULAR PROGRAM

[In thousands]

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
January	162	169	152	147	229	332	261	211	184	215	309	258	421	269	238	290
February	158	168	127	129	230	295	251	184	160	201	275	267	394	245	207	208
March	188	184	143	146	278	326	290	201	193	220	291	341	470	251	228	231
April	182	171	138	167	369	305	265	192	185	259	289	362	431	245	253	256
May	167	179	141	178	406	273	242	193	195	251	246	338	398	243	235	233
June	180	159	119	159	438	282	254	176	162	246	244	378	383	198	194	214
July	164	149	119	190	487	263	215	151	169	298	247	360	336	213	235	245
August	161	153	124	174	413	254	234	158	166	256	215	365	341	212	205	212
September	149	121	100	145	370	239	198	138	140	254	207	351	264	163	182	210
October	136	117	111	155	350	212	183	133	161	292	200	347	244	197	208	223
November	140	123	110	152	291	231	192	144	159	259	201	384	249	183	180	183
December	154	120	112	186	336	251	192	149	162	319	265	424	248	188	214	NA
Total	1,942	1,811	1,495	1,926	4,195	3,262	2,776	2,030	2,037	3,072	2,989	4,175	4,180	2,607	2,579	NA

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services.

TABLE 15.—EXHAUSTIONS—EXTENDED BENEFITS

[In thousands]

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
January	10	52	366	177	126	11	24	169	9	91	7	4	5
February	9	50	215	166	66	10	15	128	14	95	6	4	6
March	10	100	244	187	50	13	18	134	38	128	7	*	5
April	13	161	253	177	45	15	28	117	114	153	6	7	5
May	62	207	190	159	49	31	74	95	134	156	12	9	4
June	65	228	197	170	49	19	66	90	193	120	3	5	3
July	55	245	175	141	50	13	67	48	128	44	1	5	8
August	41	245	178	92	38	12	64	21	121	23	*	6	14
September	38	271	180	94	23	11	139	23	126	11	*	5	8
October	47	294	174	137	30	14	208	15	126	7	1	4	8
November	46	258	187	136	12	12	147	14	93	6	3	3	7
December	47	286	178	137	10	11	189	11	94	6	4	*	NA
Year total	441	2,398	2,536	1,774	549	172	1,039	862	1,188	840	50	52	NA

* Less than 500.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services.

TABLE 16.—BENEFIT EXHAUSTIONS UNDER FEDERAL SUPPLEMENTAL BENEFITS (1974–77) AND FEDERAL SUPPLEMENTAL COMPENSATION (1982–85)

[In thousands]

	Federal supplemental benefits					1978–81 [1]	Federal supplemental compensation				
	1973	1974	1975	1976	1977		1982	1983	1984	1985	1986 [1]
January			49	108	185			226	225	98	
February			63	130	105			419	168	80	
March			112	136	73			315	145	89	
April			97	169	33			68	113	83	
May		1	96	181	33			113	115	75	
June		6	80	164	7			730	95	33	
July		49	91	169				352	96		
August		35	93	174				291	94		
September		48	92	145				300	79		
October		119	81	157			18	215	90		
November		58	103	116			350	130	81		
December		58	103	116			314	424	81		
Total		374	1,060	1,765	436		682	3,583	1,382	458	

[1] There was no program in these years.

Note.—FSC exhaustions are not additive because reach back provisions caused claimants to receive as many as 3 final payments.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services.

TABLE 17.—UNEMPLOYMENT COMPENSATION BENEFITS PAID BY PROGRAM IN FISCAL YEAR 1986

[In millions of dollars]

State	Programs		Total
	Regular	Extended	
Alabama	188	0	188
Alaska	141	14	155
Arizona	106	0	106
Arkansas	128	0	128
California	2,140	0	2,140
Colorado	210	0	210
Connecticut	186	0	186
Delaware	43	0	43
District of Columbia	73	0	73
Florida	303	0	303
Georgia	226	0	226
Hawaii	58	0	58
Idaho	81	4	81
Illinois	936	0	936
Indiana	185	0	185

TABLE 17.—UNEMPLOYMENT COMPENSATION BENEFITS PAID BY PROGRAM IN FISCAL YEAR 1986—Continued

[In millions of dollars]

State	Programs		Total
	Regular	Extended	
Iowa	177	0	177
Kansas	167	0	167
Kentucky	196	0	113
Louisiana	551	61	612
Maine	63	0	63
Maryland	224	0	224
Massachusetts	465	0	465
Michigan	705	0	705
Minnesota	356	0	356
Mississippi	108	0	108
Missouri	221	0	221
Montana	57	0	57
Nebraska	66	0	66
Nevada	76	0	76
New Hampshire	16	0	16
New Jersey	690	0	690
New Mexico	84	0	84
New York	1,222	0	1,222
North Carolina	248	0	248
North Dakota	52	0	52
Ohio	762	0	762
Oklahoma	228	0	228
Oregon	261	0	261
Pennsylvania	1,126	0	1,126
Puerto Rico	1	27	28
Rhode Island	75	0	75
South Carolina	121	0	121
South Dakota	15	0	15
Tennessee	190	0	190
Texas	1,090	0	1,090
Utah	96	0	96
Vermont	30	0	30
Virginia	143	0	143
Virgin Islands	5	0	5
Washington	400	0	400
West Virginia	152	0	152
Wisconsin	385	0	385
Wyoming	55	0	55

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance, Division of Actuarial Service.

TABLE 18.—U.S. AVERAGE BENEFIT COST RATE: REGULAR STATE UI PLUS ½ EXTENDED BENEFIT AS PERCENT OF COVERED WAGES

Year	First quarter	Second quarter	Third quarter	Fourth quarter	Average
1971	1.52	1.19	1.05	1.06	1.20
1972	1.23	.92	.78	.72	.91
1973	.96	.72	.62	.66	.74
1974	1.13	.98	.89	1.13	1.03
1975	2.31	2.31	1.90	1.68	2.05
1976	1.85	1.42	1.28	1.30	1.46
1977	1.62	1.17	1.00	1.02	1.20
1978	1.19	.82	.73	.70	.86
1979	1.03	.77	.73	.81	.84
1980	1.23	1.23	1.32	1.21	1.25
1981	1.31	1.02	.93	1.09	1.09
1982	1.61	1.56	1.55	1.66	1.59
1983	1.87	1.42	1.02	.88	1.30
1984	1.03	.78	.68	.75	.81
1985	1.01	.81	.74	.77	.83
1986	1.00	.84	.77	.76	.84

Note: 1971–74 EB data not available.

TABLE 19.—U.S. AVERAGE WAGE REPLACEMENT RATE: RATIO OF AVERAGE WEEKLY BENEFIT AMOUNT TO AVERAGE WEEKLY WAGE

Year	First quarter	Second quarter	Third quarter	Fourth quarter	Average
1971	0.347	0.346	0.344	0.356	0.348
1972	.356	.356	.355	.361	.357
1973	.354	.350	.343	.354	.350
1974	.349	.349	.358	.365	.355
1975	.352	.358	.366	.377	.363
1976	.363	.362	.356	.366	.362
1977	.358	.351	.347	.362	.354
1978	.360	.351	.345	.357	.353
1979	.350	.345	.345	.362	.351
1980	.350	.358	.359	.363	.357
1981	343	.346	.348	.363	.350
1982	.356	.362	.366	.377	.365
1983	.365	.364	.356	.357	.360
1984	.356	.355	.346	.357	.354
1985	.352	.350	.349	.359	.352
1986	.359	.361	.360	.362	.360

Prepared by DOL/ETA/UIS/DAS.

TABLE 19.—U.S. AVERAGE WAGE REPLACEMENT RATE: RATIO OF AVERAGE WEEKLY BENEFIT AMOUNT TO AVERAGE WEEKLY WAGE—Continued

Year	First quarter	Second quarter	Third quarter	Fourth quarter	Average

TABLE 20.—NUMBER UNEMPLOYED 27 WEEKS OR LONGER AS A PERCENT OF ALL UNEMPLOYED

	First quarter	Second quarter	Third quarter	Fourth quarter
1971	8.7	11.1	11.0	10.8
1972	12.1	13.5	10.8	9.8
1973	8.6	8.5	7.0	7.4
1974	6.8	8.3	7.5	7.1
1975	8.7	14.8	18.7	19.1
1976	19.7	20.1	16.7	16.3
1977	15.5	16.5	13.6	12.9
1978	11.1	11.8	10.1	8.7
1979	9.0	9.5	8.1	8.3
1980	8.3	9.9	11.1	13.5
1981	15.3	15.0	13.7	12.3
1982	13.0	16.7	17.1	19.4
1983	23.2	26.3	23.8	21.9
1984	21.0	21.0	17.7	16.5
1985	15.8	16.4	14.7	14.7
1986	13.8	15.0	14.6	14.2

Source: U.S. Department of Labor.

Section 7. Aid to Families With Dependent Children (Title IV-A)

Eligibility

Aid to dependent children (ADC) was established by the Social Security Act of 1935 as a cash grant program to enable States to aid needy children without fathers. Renamed Aid to Families With Dependent Children (AFDC), the program provides cash welfare payments for needy children (and their mothers or other caretaker relatives), who have been deprived of parental support or care because:

—their fathers are absent from home continuously (86.9 percent of the children),[1] are incapacitated (5.3 percent), deceased (2.2 percent), or unemployed (4.1 percent); or

—their mothers are incapacitated, absent or dead (1.5 percent). (Percentages are from the 1979 AFDC study.)

States define "need," set their own benefit levels, establish (within Federal limitations) income and resource limits, and administer the program or supervise its administration. All States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands offer AFDC to needy children without able-bodied fathers at home, and 28 jurisdictions offer Federal cash supplements also to children in two-parent families who are needy because of the unemployment of one of their parents (Aid to Families With Dependent Children of Unemployed Parents (AFDC-UP)). Eligibility for AFDC on the basis of a parent's unemployment is limited to those families in which the principal wage earner is unemployed.

Eligibility for federally aided AFDC ends on a child's 18th birthday, or at State option upon a child's 19th birthday if the child is a full-time student in a secondary or technical school and may reasonably be expected to complete the program before he or she reaches age 19. Before passage of the Omnibus Budget Reconciliation Act (OBRA) of 1981, Public Law 97-35, a State could continue benefits through age 20 for students.

Federal law requires certain able-bodied recipients, including mothers whose youngest child is at least 6 years old, to register for work or job training. States may require work registrants to participate in one of several work programs: Work Incentive (WIN) Program; Community Work Experience Program (CWEP), Work Supplementation, or Job Search.

In 1981, Congress required that a portion of the income of a stepparent be counted in determining AFDC eligibility and benefit amounts. In 1984, a standard definition of the AFDC assistance unit was established for the first time. Under this requirement, the parent(s) in the home and all minor related children are to be in-

[1] In May 1982 according to the HHS quality control case sample, 87.6 percent of fathers of AFDC children were absent and 46.5 percent were not married to the children's mother.

cluded in the AFDC unit, with eligibility and benefits based on the income and circumstances of this family unit. SSI recipients and stepbrothers and stepsisters are excluded from this requirement and the first $50 of monthly child support received by the unit is disregarded when determining eligibility and benefits. In addition, if a minor who is living in the same home as her parents applies for aid as the parent of a needy child, the income of the minor's parents is to be counted as available to the filing unit.

Finally, Federal law requires AFDC mothers to assign their child support rights to the State and to cooperate with welfare officials in establishing the paternity of a child born outside of marriage and in obtaining support payments from the father. AFDC also provides cash aid for foster care of AFDC-eligible children removed from their homes by judicial order and, under certain conditions, for those *voluntarily placed* in foster care.

Treatment of Earnings

States are required by Federal law to disregard certain earned income when determining the amount of benefits to which a recipient family is entitled. Before OBRA, in order to provide a financial incentive for recipients to seek and maintain employment, Federal law required the deduction of an initial $30 in monthly earnings plus one-third of remaining earnings, plus work expenses (any expenses, including child care costs, reasonably attributable to the earning of income). When making an initial determination of eligibility, however, only work expenses were disregarded.

Amendments in OBRA changed the order in which the disregards were applied, limited the disregard for work expenses to $75 per month, capped the child care disregard at $160 per month per child, and specified that the HHS Secretary could lower these sums for part-time work. The $30 plus one-third disregard was allowed for only 4 consecutive months in a 12-month period. States were prohibited from paying AFDC to any family with a *gross* income above 150 percent of the State's standard of need and were required to assume that working AFDC recipients received a monthly earned income tax credit (EITC), if they appeared eligible for it and regardless of when or if the credit was actually available. Under prior law, the EITC was counted only when received; most AFDC recipients did not receive the EITC on a monthly basis. These changes substantially reduced the amount of earnings a recipient could have and remain eligible for an AFDC payment.

In 1984, Congress further revised these disregards. The gross income limit was increased to 185 percent of the State standard of need, the work expense disregard of $75 per month was applied to both full- and part-time workers, and the $30 disregard—originally a part of $30 and one-third—was extended for an additional 8 months beyond the 4-month limit on the one-third deduction. The 1984 legislation also returned to prior law policy with respect to the earned income tax credit: it is to be counted only when actually received.

Table 1 illustrates the impact of the 1981 and 1984 changes on a mother with two children working full-time at the minimum wage. The need and payment standard are assumed to be $420 per

month, roughly equivalent to the payment level in a high benefit State or $354 per month, the median payment level for a family of three in January 1987.

TABLE 1.—CALCULATION OF BENEFITS FOR A FULL-TIME MINIMUM WAGE WORKER UNDER PRE-OBRA, OBRA, AND CURRENT LAW

	Pre-OBRA	OBRA		New law (DEFRA)		
		First 4 months	After 4 months	First 4 months	After 4 months	After 12 months
Income:						
Gross earnings	581	581	581	581	581	581
EITC		+32	+32			
Gross income	581	613	613	581	581	581
Disregards:						
Initial disregards [1]	−30	−105	−75	−105	−105	−75
One-third of rest	−194	([2])	([2])	([2])	([2])	([2])
Child care	−100	−100	−100	−100	−100	−100
One-third of rest	([2])	−136	0	−125	0	0
Other expenses	[3] −70	([2])	([2])	([2])	([2])	([2])
Total disregards	394	341	175	330	205	175
Net countable income	187	272	438	251	376	406
AFDC benefits:						
$420 payment standard	233	148	0	169	44	14
$354 payment standard	167	82	0	103	0	0

[1] Pre-OBRA: $30 disregard. OBRA: Standard work expense deduction of $75 plus $30 in first 4 months. New Law: Standard work expense deduction of $75 plus $30 disregard in first 12 months.
[2] Not applicable.
[3] Itemized work expenses including payroll deductions and transportation.

Monthly Reporting and Retrospective Budgeting

AFDC eligibility and benefits are determined monthly. Public Law 97–35 required States to determine eligibility on the basis of the family's circumstances in the current month; payment amounts were to be determined "retrospectively"—on the basis of the family's countable income and resources in the preceding month (or, at the discretion of the Secretary of Health and Human Services, the second preceding month). In addition, States were to require recipients to provide monthly reports on income, family composition, and resources. However, the Secretary could waive this requirement if the State demonstrated that it would be cost-beneficial to do so. The only categories of recipients that could not be exempted were those with earned income or recent work history.

In 1984, Public Law 98–369 revised these monthly reporting and retrospective budgeting requirements. Retrospective budgeting is now mandatory only for cases which file a monthly report. Monthly reporting is required for cases with earned income or a recent work history and whenever cost effective.

Work Requirements and Programs

As a condition of AFDC eligibility, persons 16 years of age or older, who are receiving or applying for AFDC, must register for work and training. An individual may be exempt from the work registration requirement if he or she is unable to participate due to illness, incapacity, advanced age, full-time student status, remoteness from a work incentive (WIN) program site, the need to care for an ill or incapacitated member of the household, or working at least 30 hours per week. Also exempt is the parent caring for a child under 6 years of age; in a two-parent family, one parent is exempt if the second parent is registered for work.

Work registration is one component of the work incentive (WIN) program. All States operate a WIN program or a WIN demonstration program. In addition, the act permits States to offer several other employment programs. These are: job search; the community work experience program, and work supplementation. Some States are also operating grant diversion programs and other innovative work programs under AFDC demonstration authority.

The WIN program and WIN demonstrations

The WIN program was established in 1967 with the purpose of providing skill assessments, job training, and employment placements to help AFDC recipients to become self-supporting (see tables 2-3). At the Federal level, the program is jointly administered by the Department of Labor and the Department of Health and Human Services. A dual administrative structure is also in place at the State level, unless the State has elected to operate a WIN demonstration project. These projects, authorized by OBRA (Public Law 97-35), permit States to design an alternative to WIN, administered solely by State welfare agencies. The Department of Health and Human Services oversees these demonstrations. Currently, 26 States are operating WIN demonstrations. This is an increase of six States since the end of 1983. Table 4 identifies the WIN demonstration States and the date the demonstration began.

In fiscal year 1981, Federal funding for the WIN program totaled $365 million. By fiscal year 1987, Federal WIN funding had declined to $110 million. Funding limitations have restricted the States' ability to provide WIN services and training to AFDC recipients. As a result, many WIN registrants do not ever receive skills assessments, training, or job placements. As of September 1985, an estimated 1.6 million individuals were registered with WIN and WIN demonstration programs, of a total AFDC caseload of 3.7 million families.

AFDC recipients who are selected for participation in WIN must accept available jobs, training or needed services to prepare them for employment. Refusal to do so without good cause will result in a sanction. In the case of two-parent families, the entire family is made ineligible. In the case of a single parent who refuses to work, payment to the nonworking adult is denied, but protective payments continue for the children. Protective payments are payments to a third party. Usually a relative, neighbor or friend will receive the benefit check on behalf of the child; sometimes the State caseworker will serve as protective payee.

Effective for tax years beginning after December 31, 1981, WIN registrants and AFDC recipients were added to the list of target groups for whom employers can receive a targeted jobs credit. For tax years 1981–85, the credit was equal to 50 percent of up to $6,000 in wages for the first year of employment and 25 percent of such wages for the second year. The Tax Reform Act of 1986 extended the credit through December 1988, but reduced the first year credit from 50 to 40 percent for up to $6,000 in qualified wages.

TABLE 2.—WIN PROGRAM DATA, FISCAL YEARS 1981, 1982, 1984–86

[Persons in thousands, dollars in millions]

	Fiscal year—				
	1981	[1] 1982	1984	1985	[6] 1986
New registrants [2]	1,156	903	1,016	1,013	870
Individuals entering unsubsidized employment [3]	310	204	354	340	260
Persons off welfare because employed [4]	169	144	178	170	130
6-month retention rate [5]	61.5	62.3	61	61	61
Welfare cost savings	$760	$521	NA	NA	NA
Appropriation	$365	$281	$259	$258	$203

[1] 11 States implemented in various months the WIN demonstration program during the latter part of fiscal year 1982.

[2] Registrations: FY 1984, 34 WIN regular, 18 WIN Demo States; FY 1985, 31 WIN regular, 23 WIN Demo States; FY 1986, 28 WIN regular, 26 WIN Demo States.

[3] Individuals entering unsubsidized employment whose employment was expected to last 30 days or more.

[4] Indicates number of individuals who completely went off welfare because of employment.

[5] Adjusted for GAO recommendations for fiscal year 1984 and beyond.

[6] Projections for 1986 using appropriated amounts as modified by Gramm-Rudman.

NA—not available.

Source: Data provided by U.S. Department of Labor; table compiled by Congressional Research Service.

TABLE 3.—WIN REGISTRANTS AND JOB ENTRANTS BY SELECTED CHARACTERISTICS, FISCAL YEAR 1983–85

[In percentages]

	Fiscal year 1983		Fiscal year 1984		Fiscal year 1985	
	Registrants	Job entrants	Registrants	Job entrants	Registrants	Job entrants
Sex:						
Male	30	38	27	37	21	28
Female	70	62	73	63	79	72
Ethnic group:						
White	41	57	38	55	46	58
Black	34	25	36	26	42	34
Hispanic	18	14	19	15	9	5
Other	7	4	7	4	3	3

TABLE 3.—WIN REGISTRANTS AND JOB ENTRANTS BY SELECTED CHARACTERISTICS, FISCAL YEAR 1983–85—Continued

[In percentages]

	Fiscal year 1983		Fiscal year 1984		Fiscal year 1985	
	Registrants	Job entrants	Registrants	Job entrants	Registrants	Job entrants
Years of school completed:						
0 to 8	16	9	17	9	14	7
9 to 11	36	31	36	31	38	32
12	37	45	37	46	38	47
Over 12	11	15	10	14	10	14
Age:						
Under 22	12	10	10	8	12	10
22 to 44	77	84	77	85	78	84
45 or older	11	6	13	7	10	6
Registrant status:						
Mandatory	91	89	91	91	88	84
Percent of mandatory which are unemployed parent	(22)	(29)	(20)	(21)	(14)	(22)
Voluntary	9	11	9	9	12	16

Source: Data provided by U.S. Department of Labor; table compiled by Congressional Research Service.

Job search

The act permits States to require AFDC applicants and recipients to participate in a program of employment search beginning at the time of application. After an initial 8-week search period for applicants, AFDC recipients may be required to participate in 8 weeks of job search each year. This means that in the first year, up to 16 weeks of employment search may be required, with 8 weeks per year thereafter.

All WIN registrants, those exempt because they are remote from WIN sites, and applicants who appear to be WIN eligible may be required to participate in the job search program. At State option the job search requirement may be limited to certain groups or classes of individuals who are required to register for WIN. Transportation and other necessary costs incurred by participants must be reimbursed; States receive 50 percent Federal matching funds for these costs and may not use the job search requirement as a reason for delaying eligibility determinations or payments to those who are otherwise eligible. An individual who fails to comply with the job search requirement is subject to the sanctions described for the WIN program. Table 4 lists the States that have elected to require job search.

Community work experience program

Under authority granted by OBRA, States may operate community work experience programs (CWEP) if they so choose. These programs are commonly referred to as "workfare" and require

adult AFDC recipients to perform some sort of community work, such as park beautification or as a teacher aide, in exchange for the AFDC benefit. The individual does not become a paid employee but, instead, works off the AFDC benefit. The number of hours a person works may not exceed their AFDC grant divided by the applicable minimum wage. CWEP participants do not receive the earned income disregards.

States may require CWEP participation by most AFDC recipients who are registered for WIN. However, unlike WIN, which exempts parents with children under the age of 6 from the work requirement, CWEP may require parents caring for children under age 6, but not under age 3, to participate if child care is available. As of October 1986, 25 States had opted to implement some kind of community work experience program. Most State workfare programs are not statewide. Table 4 identifies the States with a CWEP program. Table 5 presents estimates of monthly participation in CWEP and employment search programs.

Work supplementation and grant diversion

Finally, OBRA also permits States to operate work supplementation programs, in which AFDC may be used to subsidize a job for an AFDC recipient. In 1984, Congress amended the work supplementation provisions established by OBRA to give States greater flexibility. Under the original work supplementation program authorization, States could set their own eligibility requirements, adjust need standards and operate the program without regard to the regular statewideness and earned income disregard rules. Funds accrued from reducing the need standard or revising the earned income disregards were to be used to help defray the costs of subsid zing employment opportunities. However, the act limited Federal funding for an AFDC program which included a work supplementation component to that which would have been available to a State under its May 1981 State plan, adjusted for mandatory changes in Federal law and caseload changes within the State. Because of this restriction and the requirement that work supplementation jobs be limited to public or nonprofit organizations, States did not elect this option.

In 1984, the Deficit Reduction Act amended the work supplementation program requirements. Under the new law: (1) recipients may be placed in jobs offered by private as well as nonprofit employers; (2) States are permitted but not required to offer a $30 plus one-third earned income disregard for up to 9 months for participants; (3) Federal funding is limited to the aggregate of 9 months worth of unreduced welfare grants for each participant in the work supplementation program (or less if the person participates for fewer than 9 months); and (4) a State is permitted to develop its own method by which AFDC grants are diverted to wages and is not limited to prior law requirements. This permits States to pool the benefits of AFDC recipients actually participating in the program rather than diverting the grant on an individual case basis.

A number of States have also requested and received waivers, under section 1115 of the act, which permit them to operate a similar program called grant diversion. In a grant diversion program, States may use the AFDC benefit as a wage subsidy to encourage

employers to hire AFDC recipients. Private, for-profit employers may participate in grant diversion. The wage subsidy is for a limited period, usually no more than 6 months. Currently 14 States are operating grant diversion or work supplementation programs. Table 6 summarizes these State programs.

TABLE 4.—STATE PARTICIPATION IN OPTIONAL AFDC WORK PROGRAMS

[Data as of October 1986]

State	Date WIN demo implemented	CWEP	IV–A job search
Alabama		Implemented in 1 county April 1982; now operating in 3 counties.	
Alaska			Planning for FY 1987.
Arizona	June 1, 1982		
Arkansas	Sept. 30, 1982		
California	Jan. 1, 1985	Implemented [1] in 1 county July 1981; now in 6 counties.	Implemented October 1985, now operating statewide.
Colorado		Implemented in 1 county October 1982; now operating in 26 counties.	To implement Statewide in FY 1987.
Connecticut	Oct. 1, 1985		Implemented statewide for applicants and recipients with UP's as a priority, July 1986.
Delaware	Apr. 1, 1982		
Florida	Apr. 1, 1982		Implemented July 1985 in the 44 WIN demo counties.
Georgia	Jan. 1, 1985	Implemented in 10 counties August 1982; now operating in 9 counties.	Implemented January 1986; in 16 counties for applicants and recipients.
Idaho		Implemented in January 1982: now operating in 8 WIN areas..	
Illinois	July 1, 1982	Implemented in 12 counties in February 1984; now operating in 16 counties.	
Indiana	Sept. 30, 1985		
Iowa	Sept. 30, 1983	Implemented for regular AFDC cases in 5 counties July 1982; currently operating in 49 counties for UP cases.	
Kansas		Implemented in 4 counties May 1983; currently operating in 19 counties.	Implemented for recipients only May 1983; now operating statewide.
Maine	Apr. 1, 1982		Implemented for recipients only January 1983; in WIN demo areas.
Maryland	Sept. 30, 1982		
Massachusetts	Apr. 12, 1982		Implemented for applicants and recipients in 16 counties October 1982. Statewide for UP's only.
Michigan	Apr. 1, 1982	Implemented July 1982; now operating statewide.	
Minnesota		Implemented in 3 counties March 1983; now operating in 7 counties; for UP recipients.	Implemented April 1986; in the 7 CWEP counties; for UP applicants and recipients.
Missouri		Planning for FY 87	Planning for FY 1987.
Nebraska	Sept. 30, 1982	Implemented May 1986; now operating statewide.	Implemented March 1986; statewide.
Nevada			Planning for FY 1987.
New Jersey	Oct. 1, 1982		Implemented October 1985; now statewide.
New Mexico		Implemented September 1986 in 5 counties.	

TABLE 4.—STATE PARTICIPATION IN OPTIONAL AFDC WORK PROGRAMS—Continued

[Data as of October 1986]

State	Date WIN demo implemented	CWEP	IV–A job search
New York	May 1, 1985	Implemented [1] January 1982; now operating in 20 counties and in New York City.	Planning for FY 1986.
North Carolina		Implemented [1] in 6 counties January 1982; now operating in 25 counties.	
North Dakota		Implemented in 2 counties January 1982; now operating in 11 counties.	
Ohio		Implemented [1] in 4 counties March 1983; now operating in 28 counties.	Implemented for recipients only in 4 counties June 1986; now operating in 28 counties.
Oklahoma	Jan. 1, 1982	Implemented statewide January 1982.	Implemented statewide for applicants and recipients April 1983.
Oregon	Jan. 1, 1982	Considering for FY 87	Implemented for applicants and recipients statewide December 1982.
Pennsylvania	Sept. 30, 1982	Implemented [1] statewide March 1983 as part of WIN demonstration.	Planning to implement statewide FY 1987.
Rhode Island			Implemented for AFDC recipients and unemployed parents July 1985.
South Carolina		Implemented [1] in 2 counties May 1982.	Implemented for applicants and recipients statewide October 1985.
South Dakota	Apr. 1, 1982	Iimplemented in 40 counties April 1982; now operating statewide.	
Tennessee	Oct. 2, 1985		
Texas	Mar. 4, 1982		Implemented April 1983 for applicants and recipients, now operating statewide.
Utah			Implemented for applicants and recipients statewide October 1984.
Vermont		Implemented April 1984; for UP cases active 6 mo. or more.	Implemented for UP applicants statewide April 1984.
Virginia	Jan. 1, 1983	Implemented [1] statewide as part of WIN demonstration January 1983.	Implemented statewide January 1983 for applicants and recipients.
Washington		Implemented [1] in 2 counties June 1982.	Implemented for applicants and recipients statewide October 1984.
West Virginia	Sept. 27, 1982	Implemented [1] statewide for UP's January 1982; now operating statewide for UP and regular AFDC recipients as part of WIN demonstration.	Implemented July 1986; statewide for all applicants and recipients as part of WIN demo.
Wisconsin	Sept. 30, 1983	Approved for implementation August 1986.	Implemented statewide July 1986.

[1] CWEP demonstration.

Source: Family Support Administration, January, 1987.

TABLE 5.—ESTIMATES OF MONTHLY PARTICIPATION IN AFDC WORK PROGRAMS

State	CWEP (fiscal years)			Employment search (fiscal years)		
	1985	1986	1987	1985	1986	1987
Alabama	260	386	386			
Alaska						
Arizona						
Arkansas						
California	(1)	(1)	(1)	(3)	(3)	(3)
Colorado	435	382	382			
Connecticut						
Delaware						
District of Columbia						
Florida				(1)	(1)	(1)
Georgia	(1)	(1)	(1)		(2)	(2)
Hawaii						
Idaho	(1)	(1)	(1)			
Illinois	(1)	(1)	(1)			
Indiana						
Iowa		870	900			
Kansas	1,300	1,364	1,431	314	329	345
Kentucky						
Louisiana						
Maine				332	374	426
Maryland				(3)	(3)	(3)
Massachusetts				5,400	7,000	8,000
Michigan	(1)	(1)	(1)			
Minnesota	234	250	270			
Mississippi						
Missouri			17,854			
Montana						
Nebraska		(2)	(2)		(2)	(2)
Nevada						
New Hampshire						
New Jersey					(2)	(2)
New Mexico	37	40	40			
New York	2,790	2,800	2,800			
North Carolina	2,388	3,852				
North Dakota	201	201	201			
Ohio	1,386	2,773	4,159	449	897	1,346
Oklahoma	800	800	800	1,195	1,195	1,195
Oregon				10,552	12,047	12,505
Pennsylvania	(1)	(1)	(1)			
Rhode Island					750	750

TABLE 5.—ESTIMATES OF MONTHLY PARTICIPATION IN AFDC WORK PROGRAMS—Continued

State	CWEP (fiscal years)			Employment search (fiscal years)		
	1985	1986	1987	1985	1986	1987
South Carolina	31	31	31	.....	39	39
South Dakota	265	265	265	.....	.....	.....
Tennessee	.....	.....	.....	.....	.....	.....
Texas	.....	.....	.....	4,076	4,855	4,880
Utah	.....	.....	.....	(1)	(1)	(1)
Vermont	123	160	160	1,500	2,000	2,000
Virginia	21,675	21,750	22,000	(1)	(1)	(1)
Washington	17	17	16	979	936	862
West Virginia	4,000	4,800	5,200	.....	.....	.....
Wisconsin	.....	(2)	(2)	.....	.....	.....
Wyoming	.....	.....	.....	.....	.....	.....
Guam	.....	.....	.....	.....	.....	.....
Puerto Rico	.....	.....	.....	.....	.....	.....
Virgin Islands	.....	.....	.....	.....	.....	.....
Total	35,942	40,741	56,895	24,797	30,422	32,348

[1] Did not report; program was operational during fiscal year 1985 and fiscal year 1986.
[1] Did not report; program began or is expected to begin during fiscal year 1986.
[1] Did not report; part of a demonstration.

Source: Family Support Administration.

TABLE 6.—STATE PARTICIPATION IN GRANT DIVERSION DEMONSTRATION PROJECTS AND WORK SUPPLEMENTATION PROGRAMS

[Data as of December 1986]

	AFDC for family of 3, 1986	Wage subsidy	Duration	Basis for subsidy/duration	Voluntary/ mandatory	Location	Annual participation goal
Colorado	346	100 percent including other State/local funds.	8 week cycles	Fixed subsidy and duration (short term public employment).	Mandatory	1 county	500
Connecticut	505	Variable depending on wage and grant level; as of 1/87, $1.75/hr.	5 months maximum	Varies; 5 months maximum.	Voluntary	5 urban cities	300 participants.
Florida	252	33 percent AFDC; 50 percent JTPA; 83 percent total.	3 months average (up to 1 yr.).	Flat 50 percent JTPA flat amount AFDC ($190); duration—DOT code.	Voluntary	44 counties	200
Maine	389	50 percent	6 months maximum after pre-vocational and field training.	Flat 50 percent; including JTPA contribution; duration may vary.	Voluntary	Majority of State	300
Maryland	345	50 percent	4 month average	Flat 50 percent; duration may vary.	Mandatory	7 counties	200–250 participants; 250 job entries.
Massachusetts	476	Minimum 25%; maximum 50%.	Maximum 9 months; average 4 months.	Varies; duration 9 months.	Voluntary	Statewide	1,000 job entries.
Michigan	435	Maximum $400/month	6 months	No more than 50% of gross wages; maximum 6 months.	Voluntary	7 counties	1,000
Minnesota	532	At least 50 percent from AFDC plus other funds (WIN, JTPA, State).	9 months	Diverted grant and other funds up to 50 percent of wages; duration 9 months.	Voluntary	17 counties	500

TABLE 6.—STATE PARTICIPATION IN GRANT DIVERSION DEMONSTRATION PROJECTS AND WORK SUPPLEMENTATION PROGRAMS

[Data as of December 1986]

	AFDC for family of 3, 1986	Wage subsidy	Duration	Basis for subsidy/duration	Voluntary/ mandatory	Location	Annual participation goal
New Jersey	404	50 percent	5 months average (9 months maximum).	Flat 50 percent; duration may vary.	Voluntary	9 counties	500
New York	497	$250/month	6 months maximum	Flat amount ($250); duration may vary.	Mandatory	36 counties	1,351 job entries.
Ohio	302	AFDC grant	18 months (FFP for 9 months; State funds only for 9 months).	Entire grant diverted; duration may vary.	Voluntary	10 counties	300
Oregon	397	$200/month maximum	6 months maximum	Flat $200 if monthly wage $500 or more; if less, $1.15/hour of work.	Voluntary	Statewide	No official goal.
Oklahoma	310	$250/month	9 months maximum	Flat $250/month; 9 months duration.	Voluntary	Statewide	500
Vermont	596	50 percent	Maximum 9 months Average 3.5 months.	Flat 50 percent; 6 month maximum.	Voluntary	Statewide	200
Washington	492	50 percent	9 months maximum	Flat 50 percent	Voluntary	2 counties	No official goal.

Source: Family Support Administration; Social Security Administration.

Treatment of Resources

Allowable resources are limited, by Public Law 97-35, to $1,000 (equity value) per family, excluding the home and one automobile if the family member's ownership interest does not exceed a limit chosen by the Secretary of Health and Human Services. HHS regulations set $1,500 as the equity value limit for the automobile and permit States to exclude from countable resources "basic items essential to day to day living," such as clothing and furniture. Previous regulations permitted States to adopt a counted resource limit as high as $2,000 per family member, but allowed States to consider the home and auto as counted resources.

AFDC for Families With Unemployed Parents (AFDC-UP)

The original Social Security Act permitted States to give AFDC only to needy children in one-parent homes, unless the second parent were incapacitated. Then, as now, most AFDC children lived in fatherless homes. For the first 25 years of the program, if a father lost his job and his family became needy, State AFDC programs were forbidden to help the family so long as he lived at home. In 1961, in an antirecession measure, the law was changed so that jobless fathers at home would not disqualify their families for welfare. Since May of that year States have been permitted to give AFDC to needy children of unemployed parents.

At first the States defined "unemployment," and some included fathers who worked as much as 35 hours a week, but since 1971 Federal regulations have specified that an AFDC parent must work fewer than 100 hours a month to be classified as unemployed.

Congress in 1981 (Public Law 97-35) specified that the qualifying unemployed parent must be the family's principal earner. Almost half of the 54 jurisdictions with AFDC programs never have used the option to give AFDC cash benefits to the unemployed and partly employed. The number of AFDC-UP State programs in recent years has ranged from 23 (December 1982) to 29 (September 1979), and in fiscal year 1986 was 28 jurisdictions. The States now participating contain about 71 percent of the Nation's total AFDC caseload, including most relatively high-benefit States. Expansion of AFDC eligibility to unemployed parents has been resisted, at least in some of the remaining States, because of the added costs.

During the 1970's, the AFDC-UP program served a monthly average of 120,000 families. In recent years the number of AFDC-UP families has risen sharply: fiscal year 1981, 209,000 families (monthly average); fiscal year 1982, 232,000; fiscal year 1983, 272,000, and fiscal year 1984, 287,000. In 1985, this dropped to 261,000. (See table 21.)

Enrollment for fiscal year 1986 (see table 7) was 253,462 families (1,101,172 persons), well below the peak number of 287,000 families in 1984. AFDC-UP families in fiscal year 1986 averaged 4.3 persons, and they received payments averaging $507 per family, $117 per person.

TABLE 7.—AFDC–UP RECIPIENTS OF CASH PAYMENTS AND AMOUNTS OF PAYMENTS BY STATE, FISCAL YEAR 1986 (INCLUDES NONMEDICAL VENDOR PAYMENTS, PRELIMINARY DATA)

State	UP money payments (thousands)	Average number of families	Average number of recipients	Average payment per—	
				Family	Recipient
California	$606,349	74,652	339,759	$677	$149
Connecticut	6,041	863	3,883	583	130
Delaware	285	87	357	272	67
District of Columbia	907	200	749	379	101
Hawaii	5,635	1,015	4,851	463	97
Illinois	68,282	15,533	67,865	366	84
Iowa	25,927	5,506	24,655	392	88
Kansas	8,894	1,912	7,910	388	94
Maine	7,279	1,259	5,364	482	113
Maryland	6,076	1,271	5,521	398	92
Massachusetts	10,010	1,540	6,872	542	121
Michigan	199,898	31,277	131,104	533	127
Minnesota	50,016	7,653	33,964	545	123
Missouri	16,171	4,262	18,438	316	73
Montana	3,242	691	2,912	391	93
Nebraska	7,168	1,549	6,695	386	89
New Jersey	18,673	3,978	16,022	391	97
New York	90,657	14,980	64,672	504	117
Ohio	154,354	35,051	145,072	367	89
Oregon	3,967	1,042	4,051	317	82
Pennsylvania	60,600	13,332	57,043	379	89
Rhode Island	923	177	755	434	102
South Carolina	884	308	1,411	239	52
Vermont	3,549	627	2,623	472	113
Washington	32,099	7,074	29,712	378	90
West Virginia	38,459	10,765	44,626	298	72
Wisconsin	116,770	16,673	73,342	584	133
Guam	441	187	943	197	39
U.S. total	1,543,555	253,462	1,101,172	507	117

Source: Office of Family Assistance, Family Support Administration.

Interaction Between AFDC and Other Programs

Medicaid

States must provide Medicaid to families receiving cash assistance under AFDC. The Deficit Reduction Act of 1984 (Public Law 98–369) and the Consolidated Omnibus Budget Reconciliation Act

of 1985 (P.L. 99–272) also require States to extend this categorically needy Medicaid coverage, at regular Federal matching rates, to the following groups meeting AFDC income and resource requirements: (1) all pregnant women, regardless of family composition, from medical verification of pregnancy; and (2) children born on or after October 1, 1983, up to age 5. States may at their option extend Medicaid to pregnant women, infants and young children with income above the AFDC level but below the poverty level. States that do so are prohibited from lowering AFDC benefits.

When families lose AFDC eligibility, categorical Medicaid eligibility also frequently ends, except under certain circumstances. Prior to 1984, categorical Medicaid eligibility was retained after the loss of AFDC eligibility only in the case of families whose earnings increased to the point that they would be ineligible even if the $30 plus one-third disregard were applied. These families were eligible for Medicaid for four additional months. If a family lost eligibility for AFDC because of the 4-month limit on the $30 plus one-third disregard, it also simultaneously lost categorical eligibility for Medicaid.

Public Law 98–369 requires States to provide 9 months of Medicaid coverage to families who lose eligibility for AFDC due to the termination of the one-third disregard. States have the option of extending this coverage for an additional 6 months in the case of a family that would be eligible for AFDC if the $30 plus one-third disregard were applied. Families who lose AFDC due to an increase in earnings continue to be eligible for 4 months of Medicaid benefits. In addition, the Child Support Enforcement Amendments of 1984 (Public Law 98–378) require States to provide 4 months of Medicaid coverage to AFDC families who lose eligibility due to receipt of child support payments.

Families who do not meet the criteria established in the 1984 amendments discussed above, and those who have exhausted these benefits, may also qualify for medically needy programs which are offered by 33 States and the District of Columbia. However, many State medically needy programs are less comprehensive than the basic Medicaid program and are of greatest benefit to families who incur large medical expenses.

Food stamps

Most AFDC families are also eligible for and participate in the food stamp program, which provides an important in-kind supplement to the cash assistance paid under AFDC. Although food stamp benefits are not counted in determining AFDC eligibility, the food stamp program does consider AFDC payments to be countable income and reduces the food stamp benefit by $0.30 for each dollar of countable cash income. This interaction between AFDC and the food stamp program has important financial implications for a State which desires to increase the income of its AFDC recipients. Because food stamps are reduced by $0.30 for each additional $1 of AFDC income, the State must expend $1.43 to obtain an effective $1 increase in AFDC recipients' total income. For a State with a 50 percent matching rate, the State must expend $0.72 to actually obtain a $1 increase in recipient income. This would be the typical situation for an AFDC recipient with no earnings.

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The following example illustrates the interaction of these and other programs for a mother with two children at various earning levels. The example assumes the family lives in the State of Pennsylvania which pays AFDC benefits that are slightly above average; calculations are made after the mother has been working for 4 months and lost the one-third earned income disregard.

EARNINGS AND BENEFITS FOR A MOTHER WITH TWO CHILDREN WITH DAYCARE EXPENSES—AFTER 4 MONTHS ON JOB (JANUARY 1987)—(PENNSYLVANIA)

Earnings	EITC	AFDC [1]	Food stamps [2]	Medicaid	Taxes			Work expenses [4]	"Disposable" income
					Social security	Federal income [3]	State income		
0	0	$4,584	$1,549	Yes	0	0	0	0	[5] $6,133
$2,000	$280	3,964	1,308	Yes	$143	0	0	$600	[5] 6,809
$4,000	560	2,084	1,444	Yes	286	0	0	1,200	[5] 6,602
$5,000	700	1,144	1,513	Yes	358	0	$11	1,500	[5] 6,488
$6,000	840	204	1,581	Yes	429	0	126	1,800	[5] 6,270
$7,000	842	0	1,462	Yes	501	0	147	2,100	[5] 6,556
$8,000	742	0	1,306	[6] Yes	572	0	168	2,400	[5] 6,908
$9,000	642	0	1,150	[6] Yes	644	0	189	2,700	[5] 7,259
$10,000	542	0	970	[7] No	715	0	210	3,000	7,587
$15,000	42	0	0	No	1,073	914	315	4,200	8,540
$20,000	0	0	0	No	1,430	1,664	420	5,040	11,446
$30,000	0	0	0	No	2,145	3,164	630	5,040	19,021
$50,000	0	0	0	No	3,132	8,866	1,050	5,040	31,912

[1] Assumes these deductions: $105 monthly standard allowance (which would drop to $75 after 1 year on the job) and child care costs equal to 20 percent of earnings, up to maximum of $320 for 2 children.

[2] Assumes these deductions: 20 percent of earnings (including EITC as earnings), $99 monthly standard deduction and child care costs equal to 20 percent of wages, up to maximum of $160 monthly.

[3] Head of household rates in effect for 1987.

[4] Assumed to equal 10 percent of earnings up to maximum of $100 monthly, plus child care costs equal to 20 percent of earnings up to the maximum allowed by AFDC.

[5] In addition, the benefits from Medicaid could be added, but are not. Medicaid, in fiscal year 1985 cost about $1,854 for a 3-person AFDC family (national average). In Pennsylvania, the insurance value of Medicaid for a 3-person family in fiscal year 1985 is $1,537.

[6] Family would qualify for Medicaid for 9 additional months under 1984 Federal law, which requires State to continue Medicaid that long for a family whose earnings removed them from AFDC, provided the family would have retained AFDC eligibility if one-third of residual earnings had been disregarded beyond 4 months.

[7] To regain Medicaid eligibility, family must spend down on medical expenses to State's medically needy limit ($5,100, as of January 1986).

Source: Congressional Research Service.

SSI and Social Security

In AFDC, Social Security benefits are treated as unearned income and thus AFDC benefits are reduced by $1 for each $1 of OASDI benefits. SSI benefits received by a potential member of an AFDC family are treated differently. This member (both a child or an adult receiving SSI benefits) is not regarded as a part of the AFDC unit. Thus his needs are not taken into account in determining the AFDC benefit level. At the same time, the income and re-

sources of the SSI recipient are also ignored in determining the AFDC benefit.

Current Benefit Levels and Trends

Each State establishes a "need standard" (the income the State decides is essential for basic consumption items) and a "payment standard" (100 percent or less of the need level). Benefits are generally computed by subtracting countable income from the State's payment standard.

Maximum payments

Maximum AFDC payments vary sharply from State to State, as shown by tables 8 and 9. State payments for AFDC families of three with no countable income in January 1987 ranged from $118 in Alabama to $749 in Alaska. Table 8 presents the gross income limit, the need standard, and the maximum monthly potential AFDC and food stamp benefits for a one-parent family of three persons, as of January 1987.

The food stamp benefits are calculated by deducting from the family's AFDC benefit (the only cash income of the family) the maximum deductions allowed under food stamps for a nonaged, nondisabled family: a total of $248. This consists of a standard deduction of $99, given in all households, plus a deduction of $149 for excess shelter costs.

If the family qualified only for the standard deduction, its food stamp benefits would be cut in most States by about $44. Table 8 shows combined maximum potential benefits of $578 to a New Jersey AFDC family of 3, including $174 in food stamps. The same family would receive only $534 in combined benefits, including $130 in food stamps, if it were credited only with the standard deduction. Food stamp program data show that most AFDC families do qualify for a deduction of some shelter costs.

As table 11 illustrates, during 1986, 19 States increased AFDC payments. Nine increased benefits by $15 or more per month. Thirty-four jurisdictions had no payment increases. As a result of the increase, the median State benefit for a family of four increased from $399 in 1986 to $415 per month or a real increase of 2.0 percent. Similarly, the median State benefit for a family of three increased from $346 to $354 per month.

TABLE 8.—GROSS INCOME LIMIT, NEED STANDARD, AND MAXIMUM MONTHLY POTENTIAL BENEFITS, AFDC AND FOOD STAMPS, ONE-PARENT FAMILY [1] OF THREE PERSONS, JANUARY 1987

State	Gross income limit (185 percent of need standard)	100 percent of "need"	Maximum AFDC grant [2]	Food stamp benefit [3]	Combined benefits	Combined benefits as a percent of 1986 poverty threshold [4]	AFDC benefits as a percent of 1986 poverty threshold
Alabama	$710	$384	$118	$214	$332	46	16
Alaska	1,386	749	749	197	946	104	82
Arizona	1,149	621	293	200	493	68	40
Arkansas	433	234	192	214	406	56	26
California	1,141	617	617	103	720	99	85
Colorado	779	421	346	184	530	73	48
Connecticut	1,092	590	590	111	701	96	81
Delaware	574	310	310	195	505	69	43
District of Columbia	1,317	712	364	179	543	75	50
Florida	740	400	264	209	473	65	36
Georgia	677	366	256	211	467	64	35
Hawaii	866	468	468	301	769	92	56
Idaho	1,025	554	304	197	501	69	42
Illinois	1,275	689	[5] 342	191	533	73	47
Indiana	568	307	256	211	467	64	35
Iowa	919	497	381	174	555	76	52
Kansas	746	403	[5] 403	170	573	79	55
Kentucky	364	197	197	214	411	56	27
Louisiana	1,129	610	190	214	404	55	26
Maine	1,032	558	405	166	571	78	56
Maryland	884	478	[5] 345	202	547	75	47
Massachusetts	908	491	491	141	632	87	67
Michigan (Washtenaw County)	1,232	666	[5] 503	151	654	90	69
Michigan (Wayne County)	1,166	630	[5] 473	160	633	87	65
Minnesota	984	532	532	128	660	91	73
Mississippi	681	368	120	214	334	46	16
Missouri	577	312	279	204	483	66	38
Montana	792	428	354	182	536	74	49
Nebraska	648	350	350	183	533	73	48
Nevada	527	285	285	202	487	67	39
New Hampshire	734	397	397	169	566	78	55
New Jersey	747	404	[5] 404	174	578	79	55

TABLE 8.—GROSS INCOME LIMIT, NEED STANDARD, AND MAXIMUM MONTHLY POTENTIAL BENEFITS, AFDC AND FOOD STAMPS, ONE-PARENT FAMILY [1] OF THREE PERSONS, JANUARY 1987—Continued

State	Gross income limit (185 percent of need standard)	100 percent of "need"	Maximum AFDC grant [2]	Food stamp benefit [3]	Combined benefits	Combined benefits as a percent of 1986 poverty threshold [4]	AFDC benefits as a percent of 1986 poverty threshold
New Mexico	477	258	258	211	469	64	35
New York (Suffolk County)	1,114	602	[5] 602	123	725	100	83
New York (New York City)	919	497	[5] 497	155	652	90	68
North Carolina	958	518	259	210	469	64	36
North Dakota	686	371	371	177	548	75	51
Ohio	1,245	673	[5] 302	202	504	69	41
Oklahoma	871	471	310	195	505	69	43
Oregon	734	397	[5] 397	204	601	83	55
Pennsylvania	1,136	614	382	173	555	76	52
Rhode Island	931	503	[5] 503	175	678	93	69
South Carolina	703	380	199	214	413	57	27
South Dakota	677	366	366	178	544	75	50
Tennessee	638	345	155	214	369	51	21
Texas	1,062	574	184	214	398	55	25
Utah	1,282	693	376	175	551	76	52
Vermont	1,589	859	572	116	688	95	79
Virginia	727	393	354	182	536	74	49
Washington	1,480	800	[5] 492	154	646	89	68
West *ERR97*Virginia	919	497	249	213	462	63	34
Wisconsin	1,186	641	544	125	669	92	75
Wyoming	666	360	360	180	540	74	49
Guam	490	265	265	315	580	80	36
Puerto Rico	333	180	90	NA	NA	NA	12
Virgin Islands	387	209	171	275	446	61	23
Median AFDC State [6]	792	428	354	182	536	74	49

[1] In most States these benefit amounts apply also to 2-parent families of 3 (where the second parent is incapacitated, or, as permitted in almost half the States, unemployed). Some, however, increase benefits for such families.

[2] In States with area differentials, figure shown is for area with highest benefit.

[3] Food stamp benefits are based on maximum AFDC benefits shown and assume deductions of $248 monthly ($99 standard household deduction plus $149 maximum allowable deduction for excess shelter cost) in the 48 contiguous States and D.C. In the remaining five jurisdictions these maximum allowable food stamp deductions are assumed: Alaska, $429; Hawaii, $353, Guam, $380 and, Virgin Islands $198. If only the standard deduction

were assumed, food stamp benefits would drop by $44 monthly in most of the 48 contiguous States and D.C. Maximum food stamp benefits from October 1986 through September 1987 are $214 for a family of three except in these 4 jurisdictions, where they are as follows: Alaska, $293; Hawaii, $336; Guam, $315; and Virgin Islands, $275.

[4] Except for Alaska and Hawaii, this column is based on the Census Bureau's 1986 poverty threshold for a family of three persons, $8,740, converted to a monthly rate of $728. For Alaska, this threshold was increased by 25 percent; for Hawaii, by 15 percent, following the practice of the Office of Management and Budget.

[5] In these States part of the AFDC cash payment has been designated as energy aid and is disregarded by the State in calculating food stamp benefits. Illinois disregards $18. Kansas disregards $10. Maryland disregards $59. Michigan disregards $46. New Jersey disregards $25. Ohio disregards $14. New York disregards $53, the full amount of a benefit boost enacted in 1981 ($30) and in 1985 ($23). Oregon disregards $118. Rhode Island disregards $127.85. Washington disregards $46.

[6] Among 50 States and D.C.

Note.—Puerto Rico was deleted because it does not have a food stamp program, instead a cash nutritional assistance payment is given to recipients.

Source: Table prepared by CRS from information provided by a telephone survey of the States.

TABLE 9.—MAXIMUM AFDC BENEFITS, BY FAMILY SIZE, JANUARY 1987 [1]

State	2-person family	3-person family	4-person family	5-person family	6-person family
Alabama	$88	$118	$147	$177	$206
Alaska* [2]	665	749	833	917	1,001
Arizona [3]	233	293	353	412	472
Arkansas	158	192	224	254	283
California*	498	617	734	837	941
Colorado [2 4]	272	346	420	498	574
Connecticut* [5]	476	590	688	776	867
Delaware*	229	310	363	450	514
District of Columbia	286	364	441	512	601
Florida [3]	203	264	312	361	407
Georgia	214	256	302	346	375
Hawaii* [6]	390	468	546	626	709
Idaho	245	304	344	385	418
Illinois [2 7]	250	342	386	452	507
Indiana [2]	196	256	316	376	436
Iowa	322	381	443	490	545
Kansas* [8]	334	403	462	515	568
Kentucky*	170	197	246	288	325
Louisiana [9]	138	190	234	277	316
Maine [2]	301	405	509	613	717
Maryland	269	345	415	481	530
Massachusetts*	409	491	571	652	735
Michigan:					
(Washtenaw County) [10]	417	503	605	699	833
(Wayne County) [10]	387	473	575	669	803
Minnesota* [2]	437	532	621	697	773
Mississippi	96	120	144	168	192
Missouri	224	279	327	371	412
Montana [2 3]	282	354	426	501	570

TABLE 9.—MAXIMUM AFDC BENEFITS, BY FAMILY SIZE, JANUARY 1987 [1]—Continued

State	2-person family	3-person family	4-person family	5-person family	6-person family
Nebraska *	280	350	420	490	560
Nevada* [2]	229	285	341	397	453
New Hampshire *	336	397	451	503	572
New Jersey *	307	404	465	526	587
New Mexico *	210	258	313	359	391
New York:					
(Suffolk County) * [11]	503	602	706	800	878
(New York City) * [11]	416	497	596	683	773
North Carolina	225	259	283	309	333
North Dakota* [2]	301	371	454	516	569
Ohio	248	302	374	437	486
Oklahoma [2]	240	310	384	450	514
Oregon* [2]	338	397	482	566	645
Pennsylvania [12]	299	382	466	551	623
Rhode Island* [13]	407	503	574	646	727
South Carolina	158	199	240	281	322
South Dakota*	323	366	408	450	492
Tennessee	119	155	189	222	256
Texas [2]	158	184	221	246	284
Utah	301	376	439	500	550
Vermont [14]	476	572	642	728	778
Virginia [15]	294	354	410	488	518
Washington	397	492	578	666	756
West Virginia [3] [16]	201	249	312	360	413
Wisconsin [17]	463	544	649	745	806
Wyoming* [3]	320	360	390	450	510
Guam*	205	265	310	341	371
Puerto Rico [18]	66	90	114	138	162
Virgin Islands	126	171	215	259	304
Median State [19]	282	354	415	488	530

*These States pay 100 percent of the need standard.

[1] Maximum benefit paid for a family of given size with zero countable income. Family members include 1 adult caretaker.

[2] Alaska, Colorado, Illinois, Indiana, Maine, Minnesota, Montana, Nevada, North Dakota, Oklahoma, Oregon, and Texas also have a children-only schedule.

[3] Arizona, Florida, Montana, West Virginia and Wyoming have two payment schedules, one that includes shelter expenses and one that does not.

[4] Colorado no longer has separate payment schedules for winter months and non-winter months.

[5] Connecticut has three rent regions. Data shown are from rent region A which has the highest rents.

[6] The Hawaii figures include shelter maximums of $215, $240, $265, $290, and $320 for an AFDC family with 2 recipients to 6 recipients, respectively.

[7] Illinois divides itself into 3 distinct areas with regard to payment schedules. Data shown are from the Cook County area, which includes Chicago.

[8] Kansas has a basic standard and a shelter standard. The shelter standard varies from area to area (i.e. from $76 monthly to $135 monthly). The shelter payment in Topeka and some of the other larger cities is $109 monthly. The figures shown include a shelter standard of $135 monthly.

[9] Louisiana has two payment schedules—one for urban areas, from which our data were taken, and one for rural areas.

[10] Michigan has varied shelter maximums. Shown are benefits for Washtenaw County (Ann Arbor) and Wayne County (Detroit).

[11] New York has payment schedules for each social service district. Shown are the Suffolk County and New York City amounts. The figures include energy payments.

[12] Pennsylvania has four regions. The figures in the table are from region 1, which has the highest benefits.

[13] Rhode Island has a winter and non-winter payment schedule. The figures in the table are from the winter schedule which lasts from November through April. The non-winter schedule lasts from May through October.

[14] Vermont has a base amount plus a shelter maximum that depends on whether the recipient is living inside or outside of Chittenden County. The largest amount paid to a recipient with no other income equals 66.7 percent of the base amount plus 66.7 percent of the shelter allowance. The shelter maximum for families living in Chittenden County is $250 per month, for those living outside Chittenden County the shelter maximum is $213 monthly.

[15] Virginia has three payment schedules. The figures shown are from area 3 which has the highest benefits.

[16] West Virginia has three payment schedules. The figures show the higher benefit levels.

[17] Wisconsin has two regions—one for urban areas, from which our data were taken, and one for rural areas.

[18] Puerto Rico pays 50 percent of need plus 50 percent of rent as paid. The figures assume rent at $20 a month. Officials estimate that $20 is the average amount allowed for rent.

[19] Among 50 States and D.C.

Source: Table prepared by the Congressional Research Service (CRS) on the basis of a telephone survey of the States.

Need and payment standards

To receive AFDC payments, a family must pass two income tests: first, a gross income test, and second, a counted ("net") income test. The gross income test is 185 percent of the State's need standard for the relevant family size; and it applies to both applicants and enrollees. This was increased by Congress from 150 percent of the need standard by Public Law 98–369 in 1984. No one with gross income that *exceeds* 185 percent of the need standard can receive AFDC. For applicants, the counted income test is 100 percent of the need standard, and it determines whether the family is deemed to be in "need" (see tables 8 and 9).

However, to be eligible for an actual payment, the family's counted income also must be below the State's payment standard, which in 29 jurisdictions is below the need standard.

Further, a $10 minimum payment rule imposed by Public Law 97–35 requires that counted income be at least $10 below the payment standard for an actual payment to be made.

Table 10 presents the change in the AFDC need standard from July 1970 to January 1987, by State. The increase in the median State from July 1970 to July 1975 (a period of 5 years) was 25 percent and from July 1975 to July 1980 it was 12 percent. From July 1980 to January 1987 (a period of 6½ years), the increase was 45.5 percent. Between July 1970 and January 1987, the Consumer Price Index (CPI) rose an estimated 185 percent.

Many States increased their need standards (but often not actual benefit levels) after passage of the gross income limit in 1981.

TABLE 10.—AFDC NEED STANDARD FOR A FOUR-PERSON FAMILY BY STATE FOR SELECTED YEARS

State	July 1970	July 1975	July 1980	January 1985 [1]	January 1986 [1]	January 1987 [1]	Percent change 1970–87
Alabama	$230	$225	$240	$480	$480	$480	108.7
Alaska	400	400	514	800	823	833	108.3
Arizona	256	282	282	282	748	748	192.2
Arkansas	176	290	273	273	273	273	55.1
California	432	389	591	660	698	734	69.9
Colorado	235	264	351	510	510	510	117.0
Connecticut	330	403	553	636	664	688	108.5
Delaware	287	287	312	336	349	363	26.5
District of Columbia	280	349	481	798	798	870	210.7
Florida	223	230	230	468	468	468	109.9
Georgia	208	227	227	432	432	432	107.7
Hawaii	263	497	546	546	546	546	107.6
Idaho	272	395	421	627	627	627	130.5
Illinois	282	317	350	713	768	778	175.9
Indiana	322	363	363	363	363	363	12.7
Iowa	300	376	419	578	578	578	92.7
Kansas	267	353	390	422	450	462	73.0
Kentucky	264	235	235	246	246	246	—6.8
Louisiana	213	203	494	661	738	750	252.1
Maine	349	349	522	641	674	702	101.1
Maryland	302	314	326	520	546	574	90.1
Massachusetts	314	[1] 368	444	515	515	571	81.8
Michigan (Washtenaw County)	NA	NA	[1] 531	693	786	788	NA
Michigan (Wayne County)	263	399	501	658	750	752	185.9
Minnesota	299	385	486	611	616	621	107.7
Mississippi	232	277	252	327	327	443	90.9
Missouri	325	370	365	365	365	365	12.3
Montana	250	227	331	513	514	514	105.6
Nebraska	330	328	370	420	420	420	27.3
Nevada	317	329	341	341	341	341	7.6
New Hampshire	294	346	392	429	442	451	53.4
New Jersey	347	356	414	443	465	465	34.0
New Mexico	203	239	267	313	313	313	54.2
New York (Suffolk County)	NA	NA	[1] 563	676	706	706	NA
New York (New York City)	336	400	476	566	596	596	77.4
North Carolina	184	200	210	488	538	566	207.6

TABLE 10.—AFDC NEED STANDARD FOR A FOUR-PERSON FAMILY BY STATE FOR SELECTED YEARS—Continued

State	July 1970	July 1975	July 1980	January 1985 [1]	January 1986 [1]	January 1987 [1]	Percent change 1970–87
North Dakota	284	347	408	454	454	454	59.9
Ohio	258	431	431	757	809	834	223.3
Oklahoma	218	264	349	349	583	583	167.4
Oregon	281	452	[2] 441	468	482	482	71.5
Pennsylvania	313	349	395	749	749	749	139.3
Rhode Island	263	319	389	[3] 547	[3] 574	[3] 574	[4] 67.7
South Carolina	198	217	229	229	444	458	131.3
South Dakota	300	329	361	371	371	408	36.0
Tennessee	217	217	217	300	413	421	94.0
Texas	239	187	187	621	691	691	189.1
Utah	271	397	572	802	809	809	198.5
Vermont	327	458	753	951	985	963	194.5
Virginia	279	346	400	422	457	457	63.8
Washington	303	370	536	904	914	941	210.6
West Virginia	265	332	332	332	623	623	135.1
Wisconsin	255	456	622	749	764	764	199.6
Wyoming	277	270	340	310	390	390	40.8
Guam	NR	NR	306	310	310	310	NA
Puerto Rico	132	132	126	228	228	228	72.7
Virgin Islands	NR	166	263	263	263	263	NA
Median State [5]	277	346	389	488	515	566	104.3

[1] CRS survey data.
[2] Oregon based benefits on the age of the child. The figure shown assumes all children are under 6.
[3] Winter rate (Nov.–Apr.). Summer rate was $441 in 1986 and will be $441 in 1987.
[4] Change calculated on basis of summer 1986 rate.
[5] Among 50 States and D.C.

NR = Not reported.

NA = Not available.

Note: Table compiled by the Congressional Research Service (CRS) on the basis of data from the Department of Health and Human Services and, where noted, from CRS itself.

Trends

Table 11 presents information on how the maximum AFDC benefit for a 4-person family with no income has grown from July 1970 to January 1987 by State. In current dollars, the maximum benefit of the median State climbed 19 percent from July 1970–July 1975, 33 percent from July 1975–July 1980, and 19 percent from July 1980–January 1987 (a period of 6½ years).

In constant dollars (after adjustment for inflation), in all but 3 States, benefit levels failed to keep pace with inflation. The median

decline in benefit levels adjusted for inflation from 1970 to 1987 was 33 percent.

These changes in maximum AFDC benefit levels are summarized in table 13 below. The median State's maximum AFDC benefit (guarantee) for a family of four rose from $221 in fiscal year 1970 to $415 in fiscal year 1986. In constant 1986 dollars, however, the median State's guarantee declined from $621 to $415; a decline of 33 percent. However from July, 1985 to July 1986 the AFDC median benefit increased by 2.5 percent.

Most AFDC families are eligible also for food stamps (until 1979 all were). As real AFDC benefits declined in the last dozen years, food stamp benefits rose to offset part of their losses. However, combined AFDC-food stamp benefits for a 4-person family without countable income on average dropped from $780 (1986 dollars) in July 1972, when food stamps first operated under uniform national rules, to $627 in July 1986. This drop, which amounted to 20 percent, was almost wholly due to shrinkage in AFDC levels. Food stamp maximum benefits were virtually unchanged, since they were adjusted for food price inflation in all years except 1982. See Appendix J.

TABLE 11.—AFDC MAXIMUM BENEFIT FOR A 4-PERSON FAMILY, BY STATE, SELECTED YEARS

	July 1970	July 1975	July 1980	January 1985 [1]	January 1986 [1]	January 1987 [1]	Percent change in 1970–87 in constant dollars
Alabama	$81	$135	$148	$147	$147	$147	−36
Alaska	375	400	514	800	823	833	−22
Arizona	167	183	244	282	353	353	−26
Arkansas	100	140	188	191	224	224	−21
California	221	349	563	660	698	734	+17
Colorado	235	264	351	420	420	420	−37
Connecticut	330	403	477	636	664	688	−27
Delaware	187	258	312	336	349	363	−32
District of Columbia	238	297	349	399	399	441	−35
Florida	134	170	230	284	298	312	−18
Georgia	133	153	193	245	264	302	−20
Hawaii	263	497	546	546	546	546	−27
Idaho	242	344	367	344	344	344	−50
Illinois	282	317	350	368	385	386	−52
Indiana	150	250	315	316	316	316	−26
Iowa	243	356	419	419	443	443	−36
Kansas	244	353	390	422	450	462	−33
Kentucky	187	235	235	246	246	246	−54
Louisiana	109	158	[1] 213	234	234	234	−25
Maine	168	219	352	465	489	509	+6

TABLE 11.—AFDC MAXIMUM BENEFIT FOR A 4-PERSON FAMILY, BY STATE, SELECTED YEARS—Continued

	July 1970	July 1975	July 1980	January 1985 [1]	January 1986 [1]	January 1987 [1]	Percent change in 1970–87 in constant dollars
Maryland	196	242	326	376	395	415	−26
Massachusetts	314	[2] 368	[1] 419	463	505	571	−36
Michigan	NA	453	[1] 531	542	618	605	NA
(Detroit)	(263)	(399)	(501)	(512)	(588)	(575)	(−23)
Minnesota	299	385	486	611	616	621	−27
Mississippi	70	60	120	120	144	144	−28
Missouri	130	150	290	308	320	327	−12
Montana	228	227	331	425	426	426	−34
Nebraska	200	245	370	420	420	420	−26
Nevada	143	230	314	279	341	341	−16
New Hampshire	294	346	392	429	442	451	−46
New Jersey	347	356	414	443	465	465	−53
New Mexico	182	206	267	313	313	313	−40
New York	NA	[1] 476	[1] 563	676	706	706	NA
(New York City)	(336)	(400)	(476)	(566)	(596)	(596)	(−38)
North Carolina	158	200	210	244	269	283	−37
North Dakota	261	347	408	454	454	454	−39
Ohio	200	254	327	360	374	374	−34
Oklahoma	185	264	349	349	384	384	−27
Oregon	225	413	[1] [3] 441	468	482	482	−25
Pennsylvania	313	349	381	444	466	466	−48
Rhode Island	263	319	389	547	[4] 574	574	[5] −41
South Carolina	103	117	158	229	239	240	−18
South Dakota	300	329	361	371	371	408	−52
Tennessee	129	132	148	168	186	189	−49
Texas	179	140	140	201	221	221	−57
Utah	212	306	429	425	439	439	−27
Vermont	304	367	552	622	651	642	−26
Virginia	261	311	[1] 305	379	410	410	−45
Washington	303	370	536	561	578	578	−33
West Virginia	138	249	249	249	312	312	−21
Wisconsin	217	403	529	636	649	649	+5
Wyoming	227	250	340	390	390	390	−40
Guam	NR	NR	307	310	310	310	NA
Puerto Rico	53	53	66	114	114	114	−25
Virgin Islands	NR	166	210	215	215	215	NA
Median State [6]	221	264	350	379	399	415	−33

[1] CRS survey data.
[3] Includes quarterly grant pro-rated monthly, (CRS survey).

[3] Oregon-based benefits on age of child. The figure assumes all children are under 6.
[4] Winter rate (Nov.–April). Summer rate was $441.
[5] Change calculated on basis of summer 1986 rate.
[6] Among 50 States and D.C.

NR = Not reported.
NA = Not available.

Note: Table compiled by the Congressional Research Service (CRS) on the basis of data from the Department of Health and Human Services and, where noted, from CRS itself. The last column of the table was computed using the CPI–U Consumer Price Index. The CPI in July 1970 was 116.7. A projection of 332.0 was assumed for January 1987.

TABLE 12. METHODS BY WHICH AFDC PAYMENTS ARE CALCULATED, JANUARY 1987

	AFDC Payment Amount [1]
Alabama	(30.75% × N) − CY
Alaska	N − CY
Arizona	(47.2% × N) − CY
Arkansas	(82% × N) − CY
California	N − CY
Colorado	(N − CY) × 82.37%
Connecticut	N − CY
Delaware	N − CY
District of Columbia	(51% × N) − CY
Florida	(66% × N) − CY
Georgia	(70% × N) − CY
Hawaii	N − CY
Idaho	(55% × N) − CY
Illinois	(50% × N) − CY
Indiana	(90% × N) − CY
Iowa	(77% × N) − CY
Kansas	N − CY
Kentucky	N − CY
Louisiana	(31% × N) − CY
Maine	N − CY
Maryland	(72.3% × N) − CY
Massachusetts	N − CY
Michigan	P − (CY − .2 P)
Minnesota	N − CY
Mississippi	(N − CY) × 60%
Missouri	(89.6% × N) − CY
Montana	(82.8% × N) − CY
Nebraska	N − CY
Nevada	N − CY
New Hampshire	N − CY
New Jersey	N − CY
New Mexico	N − CY
New York	N − CY
North Carolina	(50% × N) − CY
North Dakota	N − CY
Ohio	(45% × N) − CY
Oklahoma	(66% × N) − CY
Oregon	N − CY
Pennsylvania	(62% × N) − CY

TABLE 12. METHODS BY WHICH AFDC PAYMENTS ARE CALCULATED, JANUARY 1987—Continued

	AFDC Payment Amount [1]
Rhode Island	N − CY
South Carolina	(N − CY) × 52.5%
South Dakota	N − CY
Tennessee	N − CY
Texas	(32% × N) − CY
Utah	(N − CY) × 54.3%
Vermont	(66.7% × N) − CY
Virginia	(90% × N) − CY
Washington	(61.4% × N) − CY
West Virginia	(50% × N) − CY
Wisconsin	(85% × N) − CY
Wyoming	N − CY
Guam	N − CY
Puerto Rico	(50% × N) − CY
Virgin Islands	(82% × N) − CY

[1] Generally, the sum (deficit) derived by using the formulas below would be the amount of the monthly AFDC check to the family. In some cases, however, the AFDC payment would be the deficit or the maximum monthly AFDC benefit according to family size, whichever is less. (N = need standard); (CY = countable income).

[2] The payment standard is the amount of money from which countable income is subtracted to determine the AFDC payment amount. (P = payment standard).

Source: Table prepared by the Congressional Research Service on the basis of a telephone survey of the States.

TABLE 13.—HISTORICAL TRENDS IN AVERAGE PAYMENT PER RECIPIENT AND PER FAMILY; AND MAXIMUM AND MEDIAN BENEFITS FOR A FAMILY OF FOUR; FOR SELECTED YEARS FROM 1970 TO 1986 [1]

	1970	1975	1980	1983	1984	1985	1986
AFDC payments:							
Average monthly benefit per family	178	210	274	311	322	339	352
Average monthly benefit per person	46	63	94	106	110	116	120
Median State benefit in July for a family unit of 4 with no income	221	264	350	368	376	399	415
Median State benefit in July in constant 1986 dollars [1]	621	534	463	403	396	405	415
Maximum State benefit in July for a family unit of 4 with no income	375	497	563	625	660	800	823
Maximum State benefit in July in constant 1986 dollars [1]	1,054	1,004	745	685	695	813	823

[1] The constant dollar numbers were calculated using the CPI-U monthly Consumer Price Index series.

Source: Office of Research and Statistics, Social Security Administration and the Congressional Research Service.

TABLE 14.—AFDC JANUARY 1986 BREAKEVEN POINTS BY STATE, FAMILY OF 4

	AFDC maximum	185 percent of need standard	First 4 months			After 12 months		
			Effective breakeven	Breakeven as a percent of—		Effective breakeven	Breakeven as a percent of—	
				Poverty level	Minimum wage		Poverty level	Minimum wage
Alabama	147	$888	$326	35	56	$222	24	38
Alaska	800	1,480	1,305	142	225	875	95	151
Arizona	282	522	522	57	90	357	39	61
Arkansas	224	505	441	48	76	299	33	51
California	698	1,291	1,152	126	198	773	84	133
Colorado	420	944	735	80	127	495	54	85
Connecticut	572	1,058	963	105	166	647	71	111
Delaware	349	646	629	69	108	424	46	73
District of Columbia	399	1,476	704	77	121	474	52	82
Florida	284	866	531	58	91	359	39	62
Georgia	264	799	501	55	86	339	37	58
Hawaii	547	1,010	924	101	159	621	68	107
Idaho	344	1,160	621	68	107	419	46	72
Illinois	368	1,319	657	72	113	443	48	76
Indiana	316	672	579	63	100	391	43	67
Iowa	419	775	734	80	126	494	54	85
Kansas	420	777	735	80	127	495	54	85
Kentucky	246	455	455	50	78	321	35	55
Louisiana	234	1,317	456	50	79	309	34	53
Maine	465	1,186	803	88	138	540	59	93
Maryland	395	1,010	698	76	120	470	51	81
Massachusetts	505	953	863	94	149	580	63	100
Michigan	441	892	767	84	132	516	56	89
Minnesota	616	1,140	1,029	112	177	691	75	119
Mississippi	144	805	321	35	55	219	24	38
Missouri	320	675	585	64	101	395	43	68
Montana	425	949	743	81	128	500	55	86
Nebraska	420	777	735	80	127	495	54	85
Nevada	341	631	617	67	106	416	45	72
New Hampshire	442	818	768	84	132	517	56	89
New Jersey	465	860	803	88	138	540	59	93
New Mexico	313	579	575	63	99	388	42	67
New York	566	1,047	954	104	164	641	70	110
North Carolina	269	995	509	55	88	344	38	59
North Dakota	454	840	786	86	135	529	58	91
Ohio	360	1,497	645	70	111	435	47	75

TABLE 14.—AFDC JANUARY 1986 BREAKEVEN POINTS BY STATE, FAMILY OF 4—Continued

	AFDC maximum	185 percent of need standard	First 4 months			After 12 months		
			Effective breakeven	Breakeven as a percent of—		Effective breakeven	Breakeven as a percent of—	
				Poverty level	Minimum wage		Poverty level	Minimum wage
Oklahoma	349	1,079	629	69	108	424	46	73
Oregon	482	892	828	90	143	557	61	96
Pennsylvania	429	1,339	749	82	129	504	55	87
Rhode Island	467	864	806	88	139	542	59	93
South Carolina	239	821	464	51	80	314	34	54
South Dakota	371	686	662	72	114	446	49	77
Tennessee	186	764	384	42	66	261	28	45
Texas	221	1,278	437	48	75	296	32	51
Utah	430	1,497	764	83	131	514	56	89
Vermont	596	1,685	999	109	172	671	73	116
Virginia	347	714	626	68	108	422	46	73
Washington	544	1,584	921	100	159	619	68	107
West Virginia	312	1,153	573	62	99	387	42	67
Wisconsin	649	1,413	1,079	118	186	724	79	125
Wyoming	390	722	690	75	119	465	51	80

[1] These calculations assume no child care expenses and work expenses of $75 per month. The breakevens for 5–12 months can be obtained by adding $30 to the breakeven for "After 12 months."

Source: Provided by the Administration, June 27, 1986.

AFDC Emergency Assistance

The act permits States, at their option to operate an Emergency Assistance program as part of the AFDC program. States that elect this option receive 50 percent Federal reimbursement for their expenditures on behalf of AFDC-eligible families threatened by destitution or homelessness because of an emergency situation. These funds may also be used to meet other emergency needs of families that are eligible for or receiving AFDC.

The State plan must specify the eligibility conditions in addition to those mentioned in the act; the emergency needs that will be met; and the services that will be provided. Federal funds are available only for assistance authorized during one period of 30 consecutive days in any 12 consecutive months.

In fiscal year 1986, 28 jurisdictions operated an Emergency Assistance program. Table 15 presents the average monthly caseload and average monthly payments for jurisdictions participating in the program.

TABLE 15.—EMERGENCY ASSISTANCE: TOTAL CASELOAD AND PAYMENTS (FEDERAL AND STATE) FISCAL YEAR 1986—PRELIMINARY DATA

	Average monthly caseload	Average monthly payments
Arkansas	48	$5,159
California	703	2,696,831
Delaware	216	24,122
District of Columbia	1,086	57,278
Georgia	629	614,950
Illinois	314	54,654
Kansas	170	31,926
Maine	279	80,515
Maryland	1,881	391,854
Massachusetts	4,222	1,909,873
Michigan	4,716	993,191
Minnestota	1,379	549,019
Montana	124	26,477
Nebraska	208	88,102
New Jersey	626	416,519
New York	6,286	4,447,940
Ohio	4,877	720,063
Oklahoma	809	201,601
Oregon	1,601	341,485
Pennsylvania	48	7,040
Vermont	308	32,143
Virginia	22	6,935
Washington	684	256,233
West Virginia	1,136	145,858
Wisconsin	254	137,850
Wyoming	453	99,891
Puerto Rico	886	14,987
Virgin Islands	2	602
U.S. total	33,962	$14,535,096

Source: DHHS, Family Support Administration.

FINANCING

The Federal Government pays at least 50 percent of each State's benefit payments and more than 70 percent in eleven States. Federal matching for AFDC varies from State to State, depending, within limits, on per capita income. Under matching formulas in the law, about 54 percent of each AFDC benefit dollar is paid by the Federal Government and 45 percent is paid by the States, some of which require local governments to share costs. The Federal share varies among States, ranging from 50 percent to 78.50 percent, and it is inversely related to State per capita income. The Federal Government pays 50 percent of administrative costs in all States.

The Federal share of a State's AFDC payments is determined by the matching formula specified for Medicaid in title XIX of the Social Security Act. (States may choose an alternate formula, specified for AFDC only in title IV of the act, but in early fiscal year 1985 none did so. Unlike the Medicaid formula, this "regular" AFDC formula places a ceiling on average benefits eligible for Federal funds.)

The Medicaid cost-sharing formula used to determine the State and Federal shares of AFDC benefit payments is as follows:

State share = State per capita income squared/national per capita income squared × 45 percent

Federal share = 100 percent—State share (with a minimum of 50 percent and a maximum of 83 percent)

For the outlying areas, Guam, Puerto Rico, and the Virgin Islands, 75 percent Federal matching is provided for AFDC benefits, but the law imposes a ceiling on Federal funds. The ceilings are as follows: Puerto Rico, $72 million; Guam, $3.3 million; and the Virgin Islands, $2.4 million.

The Federal share of benefits is shown in table 16.

TABLE 16.—FEDERAL SHARE OF THE AFDC PROGRAM,[1] FISCAL YEARS 1980 THROUGH 1987

[In percent]

State	1980–81 [2]	1982–83 [3]	1984–85 [4]	1986	1987
Alabama	71.32	71.13	72.14	72.30	72.41
Alaska	50.00	50.00	50.00	50.00	50.00
Arizona (37.9 in fiscal year 1980)		59.87	61.21	62.28	62.13
Arkansas	72.87	72.16	73.65	73.83	74.02
California	50.00	50.00	50.00	50.00	50.00
Colorado	53.16	52.28	50.00	50.00	50.00
Connecticut	50.00	50.00	50.00	50.00	50.00
Delaware	50.00	50.00	50.00	50.00	50.00
District of Columbia	50.00	50.00	50.00	50.00	50.00
Florida	58.94	57.92	58.41	56.16	55.54
Georgia	66.76	66.28	67.43	66.05	64.54
Guam (Federal funds limited)	[5] 75.00	75.00	75.00	75.00	50.00
Hawaii	50.00	50.00	50.00	51.00	51.29
Idaho	65.70	65.43	67.28	69.36	71.08
Illinois	50.00	50.00	50.00	50.00	50.00
Indiana	57.28	56.73	59.93	62.82	62.92
Iowa	56.57	55.35	55.24	58.90	60.39
Kansas	53.52	52.50	50.67	50.00	51.39
Kentucky	68.07	67.95	70.72	70.23	70.75
Louisiana	68.82	66.85	64.65	63.81	65.77
Maine	69.53	70.63	70.63	68.86	68.07

TABLE 16.—FEDERAL SHARE OF THE AFDC PROGRAM,[1] FISCAL YEARS 1980 THROUGH 1987—Continued

[In percent]

State	1980–81 [2]	1982–83 [3]	1984–85 [4]	1986	1987
Maryland	50.00	50.00	50.00	50.00	50.00
Massachusetts	51.75	53.56	50.13	50.00	50.00
Michigan	50.00	50.00	50.70	56.79	56.88
Minnesota	55.64	54.39	52.67	53.41	52.98
Mississippi	77.55	77.36	77.63	78.42	78.50
Missouri	60.36	60.38	61.40	60.62	59.85
Montana	64.28	65.34	64.41	66.38	67.44
Nebraska	57.62	58.12	57.13	57.11	58.06
Nevada	50.00	50.00	50.00	50.00	50.00
New Hampshire	61.11	59.41	59.45	54.92	53.28
New Jersey	50.00	50.00	50.00	50.00	50.00
New Mexico	69.03	67.19	69.39	68.94	69.68
New York	50.00	50.00	50.88	50.00	50.00
North Carolina	67.64	67.81	69.54	69.18	68.40
North Dakota	61.44	62.11	61.32	55.12	56.41
Ohio	55.10	55.10	55.44	58.30	58.27
Oklahoma	63.64	59.91	58.47	57.60	59.86
Oregon	55.66	52.81	57.12	61.54	62.47
Pennsylvania	55.14	56.78	56.04	56.72	57.28
Puerto Rico (Federal funds limited)	[5] 75.00	75.00	75.00	75.00	50.00
Rhode Island	57.81	57.77	58.17	56.33	55.38
South Carolina	70.97	70.77	73.51	72.70	72.23
South Dakota	68.78	68.19	68.31	67.82	67.45
Tennessee	69.43	68.53	70.66	70.20	70.26
Texas (67.2 in fiscal year 1980)			54.37	53.56	55.16
Utah	68.07	68.64	70.84	72.62	73.21
Vermont	68.40	68.59	69.37	67.06	67.37
Virgin Islands (Federal funds limited)	[5] 75.00	75.00	75.00	75.00	50.00
Virginia	56.54	56.74	56.53	53.14	51.86
Washington	50.00	50.00	50.00	50.06	52.52
West Virginia	67.35	67.95	70.57	71.53	72.59
Wisconsin	57.95	58.02	56.87	57.54	57.58
Wyoming	50.00	50.00	50.00	50.00	54.20

[1] The Federal share of the AFDC program is calculated by the same formula used to determine the Federal share of medicaid costs except in States that elect an alternate formula or have no medicaid program. Texas chose the alternate formula until July 1, 1983. Arizona used the alternate formula until the first quarter of fiscal year 1983, when it was deemed qualified to use the medicaid formula for the first time. The Federal medicaid matching rates are 60.81 and 61.47 for Arizona for fiscal years 1978–79 and 1980–81. For Texas they are 60.66, 58.35, and 55.75, for fiscal years 1978–79, 1980–81, and 1982–83, respectively.

[2] Effective Oct. 1, 1979, through Sept. 30, 1981.
[3] Effective Oct. 1, 1981, through Sept. 30, 1983.
[4] Effective Oct. 1, 1983, through Sept. 30, 1985.
[5] Public Law 96–272 made permanent the 75-percent matching rate for AFDC effective Oct. 1, 1979. For medicaid the matching rate remains 50 percent.

Source: Department of Health and Human Services.

Federal and State Expenditures

In fiscal year 1986 AFDC benefits totaled $15 billion. Of total fiscal year 1986 benefits, $8.1 billion or 54 percent was paid by the Federal Government. Tables 17 and 18 present State and Federal expenditures for selected years.

Currently, 10 States require their localities to pay some portion of benefit costs. These States are:

California, Colorado, Indiana, Minnesota, Montana, New Jersey, New York, North Carolina, North Dakota, and Ohio.

Table 17 presents historical data on the amount of total Federal and State AFDC benefit payments to single-parent families (including two-parent families where one adult is incapacitated), unemployed parent families, and under the emergency assistance program. Benefit payments under current law are projected to be $16.6 billion in fiscal year 1987 and $18.6 billion by fiscal year 1992.

Table 18 presents Federal and State expenditures for AFDC in selected years. Administrative costs have risen much faster than total benefits since 1971. Administrative costs equaled 9.6 percent of 1971 benefits and are estimated to equal 12.4 percent of 1987 benefits.

Table 19 gives State-by-State fiscal year 1986 data on average monthly caseloads, benefit payments, State-local administrative costs, and administrative costs per family. Administrative costs ranged from $174 per family in Wisconsin to $1,083 in Oklahoma.

TABLE 17.—FEDERAL AND STATE AFDC BENEFIT PAYMENTS UNDER THE SINGLE PARENT, UNEMPLOYED PARENT, AND EMERGENCY ASSISTANCE PROGRAMS: FISCAL YEARS 1970 TO 1992

[In millions of dollars]

Fiscal year	Single parent [1]	Unemployed parent	Emergency assistance	Total, columns 1, 2, and 3 [2]	Child support collections	Total, columns 4 minus 5 [3]	Column 6 expressed in 1985 constant dollars [4]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1970	3,851	231	14	4,095	0	4,095	11,580
1971	4,993	412	22	5,427	0	5,427	14,587
1972	5,972	422	43	6,436	0	6,436	16,740
1973	6,459	414	38	6,912	0	6,912	17,369
1974	6,881	324	44	7,249	0	7,249	16,697
1975	7,791	362	70	8,223	0	8,223	16,910
1976	8,825	525	66	9,415	286	9,129	17,421

TABLE 17.—FEDERAL AND STATE AFDC BENEFIT PAYMENTS UNDER THE SINGLE PARENT, UNEMPLOYED PARENT, AND EMERGENCY ASSISTANCE PROGRAMS: FISCAL YEARS 1970 TO 1992—Continued

[In millions of dollars]

Fiscal year	Single parent [1]	Unemployed parent	Emergency assistance	Total, columns 1, 2, and 3 [2]	Child support collections	Total, columns 4 minus 5 [3]	Column 6 expressed in 1985 constant dollars [4]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1977	9,420	617	70	10,107	423	9,684	17,344
1978	9,624	565	76	10,264	472	9,792	16,452
1979	9,865	522	81	10,468	597	9,871	15,039
1980	10,847	693	109	11,650	603	11,047	14,674
1981	11,769	1,075	127	12,971	671	12,300	14,815
1982	11,601	1,256	95	12,951	786	12,165	13,734
1983	12,136	1,471	121	13,727	880	12,847	13,977
1984	12,759	1,612	132	14,502	1,000	13,502	14,041
1985	13,401	1,556	157	15,114	903	14,211	14,211
1986	14,234	1,563	175	15,972	960	15,012	14,695
1987 [5]	14,805	1,583	189	16,577	1,061	15,516	14,851
1988 [5]	15,112	1,567	198	16,877	1,148	15,729	14,520
1989 [5]	15,531	1,557	205	17,293	1,260	16,033	14,295
1990 [5]	15,987	1,546	212	17,745	1,384	16,361	14,110
1991 [5]	16,443	1,546	216	18,205	1,520	16,685	13,992
1992 [5]	16,863	1,541	220	18,624	1,669	16,955	13,888

[1] Includes payments to two-parent families where one adult is incapacitated.

[2] Total AFDC benefits of which a portion are reimbursed by child support collections. Total may not add due to rounding.

[3] Net AFDC benefits—Gross benefits less those reimbursed by child support collections.

[4] Net AFDC benefits in constant 1985 dollars.

[5] Administration projections under current law. Collection of all quality control sanctions is assumed.

[6] Does not reflect the impact of the $50 per month disregard of child support payments in calculating AFDC benefits.

NA—Not available.

Source: Office of Financial Management, Family Support Administration.

TABLE 18.—TOTAL, FEDERAL, AND STATE AFDC EXPENDITURES: FISCAL YEARS 1970 TO 1992

[In millions of dollars]

Fiscal year	Federal share		State share		Total	
	Benefits	Administrative	Benefits	Administrative	Benefits	Administrative
1970	2,187	[1] 572	1,443	186	4,082	[1] 881
1971	3,008	271	2,469	254	5,477	525
1972	3,612	[2] 240	2,942	241	6,554	NA
1973	3,865	313	3,138	296	7,003	610
1974	4,071	379	3,300	362	7,371	740
1975	4,625	552	3,787	529	8,412	1,082
1976	5,258	541	4,418	527	9,676	1,069
1977	5,626	595	4,762	583	10,388	1,177
1978	5,701	631	4,890	617	10,591	1,248
1979	5,825	683	4,954	668	10,779	1,350
1980	6,448	750	5,508	729	11,956	1,479
1981	6,928	835	5,917	814	12,845	1,648
1982	6,922	878	5,934	878	12,857	1,756
1983	7,332	915	6,275	915	13,607	1,830
1984	7,707	876	6,664	822	14,371	1,698
1985	8,019	890	6,938	889	14,957	1,779
1986	8,543	993	7,254	967	15,797	[4] 1,960
1987 [3]	8,941	1,036	7,447	1,004	16,388	[4] 2,040
1988 [3]	9,134	1,086	7,545	1,043	16,679	[4] 2,129
1989 [3]	9,358	1,106	7,730	1,079	17,088	[4] 2,185
1990 [3]	9,601	1,133	7,932	1,113	17,533	[4] 2,246
1991 [3]	9,851	1,160	8,138	1,144	17,989	[4] 2,304
1992 [3]	10,078	1,185	8,326	1,168	18,404	[4] 2,353

[1] Includes expenditures for services.
[2] Administrative expenditures only.
[3] Administration projection under current law. Collection of all quality control sanctions is assumed.
[4] Includes territories and other jurisdictions.

Note.—Benefits do not include emergency assistance payments or reimbursement from child support enforcement collections. Foster care payments are included from 1971 to 1980. Beginning in fiscal year 1984, the costs of certifying AFDC households for food stamps are shown in the food stamp appropriation, U.S. Department of Agriculture. Administrative figures include training expenditures.

NA—Not available.

Source: Office of Financial Management, Family Support Administration.

TABLE 19.—AVERAGE MONTHLY NUMBER OF AFDC FAMILIES, TOTAL BENEFIT PAYMENTS, TOTAL ADMINISTRATIVE COSTS, AND ADMINISTRATIVE COST PER AFDC FAMILY BY STATE, FISCAL YEAR 1986 (PRELIMINARY DATA)

State	Average monthly number of AFDC families (thousands)	Total benefit payments[1] (thousands)	Total administrative costs (thousands)	Administrative cost per AFDC family
Alabama	50.1	$68,313	$17,455	$348
Alaska	6.7	46,028	6,073	900
Arizona	26.0	78,550	9,434	362
Arkansas	22.6	48,385	9,047	402
California	564.5	3,580,446	309,835	549
Colorado	29.1	106,071	18,300	628
Connecticut	40.3	226,932	19,707	489
Delaware	8.2	24,719	4,887	595
District of Columbia	21.3	76,485	22,025	1,033
Florida	97.4	261,298	62,298	640
Georgia	83.9	222,833	39,970	476
Hawaii	15.2	73,315	4,791	316
Idaho	6.3	19,299	5,990	946
Illinois	241.3	885,779	71,760	297
Indiana	55.7	147,470	28,831	518
Iowa	40.8	169,694	13,315	326
Kansas	23.4	91,458	9,804	420
Kentucky	60.2	139,614	18,714	311
Louisiana	80.2	161,540	27,875	347
Maine	20.1	83,957	6,549	326
Maryland	69.5	249,698	30,399	437
Massachusetts	87.3	453,064	64,849	742
Michigan	220.2	1,216,774	128,302	585
Minnesota	53.8	322,312	24,248	451
Mississippi	53.3	73,957	9,864	185
Missouri	66.5	208,567	25,245	380
Montana	8.8	36,830	3,750	424
Nebraska	16.1	61,495	7,099	471
Nevada	5.5	15,664	5,565	641
New Hampshire	5.0	19,096	4,045	814
New Jersey	120.9	503,674	82,472	682
New Mexico	18.0	51,344	11,923	663
New York	368.2	2,079,656	326,922	888
North Carolina	66.9	183,128	31,613	473
North Dakota	4.8	19,895	2,831	585
Ohio	227.3	803,515	41,587	271

TABLE 19.—AVERAGE MONTHLY NUMBER OF AFDC FAMILIES, TOTAL BENEFIT PAYMENTS, TOTAL ADMINISTRATIVE COSTS, AND ADMINISTRATIVE COST PER AFDC FAMILY BY STATE, FISCAL YEAR 1986 (PRELIMINARY DATA)—Continued

State	Average monthly number of AFDC families (thousands)	Total benefit payments[1] (thousands)	Total administrative costs (thousands)	Administrative cost per AFDC family
Oklahoma	30.2	100,202	32,738	1,083
Oregon	30.4	120,416	25,860	852
Pennsylvania	190.8	773,537	136,705	716
Rhode Island	16.0	78,907	6,412	400
South Carolina	46.1	103,154	15,133	329
South Dakota	6.2	19,488	3,725	605
Tennessee	59.1	99,986	19,486	330
Texas	136.3	280,511	45,652	335
Utah	13.4	54,483	10,377	775
Vermont	7.6	39,276	4,300	564
Virginia	58.5	178,596	41,611	711
Washington	70.7	363,553	37,293	528
West Virginia	36.5	109,001	8,246	226
Wisconsin	98.6	591,983	17,166	174
Wyoming	4.0	15,736	2,649	662
Guam	1.6	3,996	420	263
Puerto Rico	53.7	64,868	14,055	262
Virgin Islands	1.3	2,590	425	339
U.S. total	3,746.7	15,816,543	1,948,640	520

[1] Excludes foster care payments.

Source: Office of Family Assistance, Social Security Administration, January 1986.

The 1986 Caseload and Recent Trends

Tables 20, 21, and 7 present recent caseload and benefit data. In fiscal year 1986, the share of persons receiving AFDC due to unemployment of the principal earner (AFDC–UP) was 10.0 percent, down from 10.5 percent in the previous year. This compares with a 5.7 percent share for such recipients in 1970.

Average benefits per AFDC family (2.9 persons) were $352 in fiscal year 1986, compared with $339 a year earlier. Average benefits per AFDC–UP family (4.3 persons) were $507, compared with $518 a year earlier.

TABLE 20.—FISCAL YEAR 1986 CASELOAD AND ASSISTANCE PAYMENTS

[Preliminary data]

State	Total assistance payments (thousands)	Average monthly caseload (thousands)	Average monthly recipients (thousands)	Average payment per	
				Family	Person
Alabama	$68,313	50.1	146.0	$114	$39
Alaska	46,028	6.7	16.9	569	227
Arizona	78,550	26.0	74.4	251	88
Arkansas	48,385	22.6	66.6	179	61
California	3,580,446	564.5	1,643.9	529	182
Colorado	106,071	29.1	83.5	303	106
Connecticut	226,932	40.3	117.3	469	161
Delaware	24,719	8.2	21.9	251	94
District of Columbia	76,485	21.3	55.2	299	115
Florida	261,298	97.4	275.4	224	79
Georgia	222,833	83.9	237.9	221	78
Hawaii	73,315	15.2	47.0	403	130
Idaho	19,299	6.3	17.1	254	94
Illinois	885,779	241.3	736.9	306	100
Indiana	147,470	55.7	161.0	221	76
Iowa	169,694	40.8	127.1	347	111
Kansas	91,458	23.4	68.8	326	111
Kentucky	139,614	60.2	161.8	193	72
Louisiana	161,540	80.2	241.6	168	56
Maine	83,957	20.1	58.4	348	120
Maryland	249,698	69.5	191.9	299	108
Massachusetts	453,064	87.3	235.2	432	161
Michigan	1,216,774	220.2	672.7	461	151
Minnesota	322,312	53.8	160.1	500	168
Mississippi	73,957	53.3	159.8	116	39
Missouri	208,567	66.5	200.5	261	87
Montana	36,830	8.8	25.8	347	119
Nebraska	61,495	16.1	47.1	317	109
Nevada	15,664	5.5	15.9	239	82
New Hampshire	19,596	5.0	13.1	329	125
New Jersey	508,674	120.9	355.5	351	119
New Mexico	51,344	18.0	51.2	238	84
New York	2,079,656	368.2	1,098.4	471	158
North Carolina	183,128	66.9	175.0	228	87
North Dakota	19,895	4.8	13.4	342	123
Ohio	803,515	227.3	676.8	295	99
Oklahoma	100,202	30.2	87.9	276	95

TABLE 20.—FISCAL YEAR 1986 CASELOAD AND ASSISTANCE PAYMENTS—Continued

[Preliminary data]

State	Total assistance payments (thousands)	Average monthly caseload (thousands)	Average monthly recipients (thousands)	Average payment per	
				Family	Person
Oregon	120,410	30.4	82.0	331	122
Pennsylvania	773,537	190.8	580.2	338	111
Rhode Island	78,907	16.0	44.4	410	148
South Carolina	103,154	46.1	130.3	186	66
South Dakota	19,488	6.2	17.3	264	94
Tennessee	99,896	59.1	161.6	141	52
Texas	280,511	136.3	413.5	171	57
Utah	54,483	13.4	39.8	339	114
Vermont	39,276	7.6	21.9	429	150
Virginia	178,596	58.5	153.4	254	97
Washington	363,553	70.7	197.6	429	153
West Virginia	109,001	36.5	115.1	249	79
Wisconsin	591,983	98.6	300.9	500	164
Wyoming	15,736	4.0	11.1	328	118
Guam	3,996	1.6	5.8	208	57
Puerto Rico	64,868	53.7	176.3	101	31
Virgin Islands	2,590	1.3	4.3	172	50
U.S. total	15,816,543	3,746.7	10,994.6	352	120

Source: Office of Family Assistance, Family Support Administration.

Table 21 presents the average monthly number of families and individuals receiving AFDC benefits since 1970. In fiscal year 1986 AFDC family enrollment was 3.7 million. This includes 11.0 million recipients of whom approximately 66 percent were children. Of these AFDC families 253,000 were two-parent families eligible because of an unemployed parent.

TABLE 21.—HISTORICAL TRENDS IN AFDC ENROLLMENTS AND AVERAGE PAYMENTS

Fiscal year	Average monthly number of (in thousands)					Average monthly benefit	
	Families [1]	Recipients [1]	Children [1]	Unemployed parent families	Unemployed parent recipients	Family	Recipient
1970	1,909	7,429	5,494	78	420	$178	$46
1971	2,532	9,556	6,963	143	726	180	48
1972	2,918	10,632	7,698	134	639	187	51
1973	3,123	11,038	7,965	120	557	187	53
1974	3,170	10,845	7,824	95	434	194	57

TABLE 21.—HISTORICAL TRENDS IN AFDC ENROLLMENTS AND AVERAGE PAYMENTS—Continued

Fiscal year	Average monthly number of (in thousands)					Average monthly benefit	
	Families [1]	Recipients [1]	Children [1]	Unemployed parent families	Unemployed parent recipients	Family	Recipient
1975	3,342	11,067	7,928	101	451	210	63
1976	3,561	11,339	8,156	135	593	226	71
1977	3,575	11,108	7,818	149	659	242	78
1978	3,528	10,663	7,475	127	567	250	83
1979	3,493	10,311	7,193	113	504	257	87
1980	3,642	10,597	7,320	141	612	274	94
1981	3,871	11,160	7,615	209	881	277	96
1982	3,569	10,431	6,975	232	976	300	103
1983	3,651	10,659	7,051	272	1,144	311	106
1984	3,725	10,866	7,153	287	1,222	322	110
1985	3,692	10,813	7,165	261	1,131	339	116
1986 [3]	3,747	10,995	7,294	253	1,101	352	120
1987 [2]	3,762	11,010	NA	248	1,073	363	124
1988 [2]	3,771	11,012	NA	242	1,043	369	126
1989 [2]	3,789	10,042	NA	235	1,014	376	129
1990 [2]	3,815	11,095	NA	229	986	383	132
1991 [2]	3,847	11,167	NA	225	967	390	134
1992 [2]	3,880	11,241	NA	221	948	395	136

[1] Includes unemployed parent families and, for 1971–81, foster care children.
[2] Projection under current law.
[3] Preliminary data.

Source: Office of Family Assistance and Office of Family Resources, Social Security Administration.

The number of AFDC *families* rose more than 50 percent from 1971 to 1981, reaching a high of 3.9 million (monthly average) in 1981. In 1982, after OBRA took effect, the number dropped 8 percent, but in 1983 it rose 2.3 percent, and in 1984, the number of families rose 2 percent. In 1985, it dropped by 1 percent but, in 1986 it increased by 1.5 percent.

The number of one-parent AFDC families fell significantly in 1982, and then turned upward. However, the number of two-parent families (those aided because of the unemployment of a parent) began a steep climb in 1980 that lifted 1984 numbers to a record peak.

Characteristics of AFDC Families

This section describes the characteristics of AFDC families, using two main sources of data. For years through 1979, the sources were individual surveys of similar design specially conducted to gather information from agency case files. For 1982 and later years, data

were derived from information obtained in the quality control case samples.

As noted before, Congress in 1981 changed AFDC rules significantly. The new rules primarily affected families with earnings and children living with their stepparents. For most such families, benefits were ended or reduced. In 1984, Congress again revised the AFDC program, restoring eligibility to some of the families affected by the 1981 changes.

Table 22 shows that the share of AFDC families with earnings fell more than 50 percent from March 1979 to 1984, from 12.8 percent to 6.0 percent. The share of families with no reported income other than AFDC climbed from 80.6 percent to 87.8 percent in 1984. Moreover (table 24), the average amount of support contributed by stepparents (and in 1982 and thereafter deemed from them) more than doubled, from $63 per family in March 1979 to $159 in May 1982. Data for 1983 and 1984 were not available.

Table 22 also shows the trend in selected characteristics of AFDC families from 1969 to 1984. During this period, the average family size decreased from 4.0 persons to 2.9; the percent of families participating in the food stamp program increased; and the share of AFDC households with nonrecipient members climbed.

Among the 1984 changes made by Congress is the provision which for the first time establishes a standard definition of the AFDC assistance unit. Under this new policy, the parent(s) in the home and all minor related children must be included in the AFDC unit except SSI recipients. According to the May 1982 quality control data, 46 percent (1.531 million cases) of the total AFDC caseload lives with others who are not part of the AFDC unit. Some of these families were affected by the standard filing unit provision enacted in 1984. The 1982 quality control data also show that:

—Most of the mothers who had been excluded from the AFDC unit but were collecting AFDC for their children were 21 years of age or older (79 percent). Only 16 percent of the mothers who had excluded themselves from the AFDC unit were under the age of 20.

—Most of the mothers who were living with their children but excluded from the AFDC unit were living with other relatives. These relatives could be grandparents, siblings, or other relatives of the AFDC children. Only 6 percent of the mothers were living with nonrelatives.

—The 212,000 cases where the mother was in the home but excluded from the AFDC unit were distributed as follows: (1) in 5 percent of the cases another adult was included in the AFDC unit; (2) in 93 percent of the cases, only children formed the AFDC unit. These children lived with other adults (64,000 cases), other adults and children (37,000 cases), stepparents (36,000), or adults who were receiving SSI (62,000 cases).

—In 1.038 million cases the mother was included in the AFDC unit but the family was living with other people. These cases are distributed as follows: (1) in 516,000 cases the persons outside the AFDC unit were adults; (2) in 254,000 cases adults and children were in the household but not in the assistance unit; (3) in 142,000 cases children were the only other persons in the household who were not receiving AFDC; (4) in 85,000 cases the

adults and children who had been excluded from the AFDC unit were receiving SSI; and (5) in 42,000 cases, the persons outside the AFDC unit were stepparents.

—The cases in which only children had been excluded from the unit or in which a parent and child(ren) had been excluded were far more likely to be located in the South. For example, 44.6 percent of the cases adding a child to the unit were in the South but only 26.2 percent of the total caseload lived in the South.

Table 22 indicates that the share of AFDC families with no more than two children rose from 49.6 percent in 1969 to 73.7 percent in 1984. The share of AFDC families with a mother (or other caretaker relative) younger than 20 declined from 8.3 percent in 1975 to 3.6 percent in 1983 and the percentage of families reporting no father in the home rose from 84.7 percent in 1979 to 89.8 percent in 1984.

TABLE 22.—AFDC CHARACTERISTICS, 1969–84

	May 1969	January 1973	May 1975	March 1977	March 1979	1983 [4]	1984 [4]
Average family size (persons)	4.0	3.6	3.2	3.1	3.0	3.0	2.9
Number of child recipients (percent of AFDC cases):							
One	26.6	NA	37.9	40.3	42.3	43.4	44.1
Two	23.0	NA	26.0	27.3	28.1	29.8	29.6
Three	17.7	NA	16.1	16.1	15.6	15.2	15.5
Four or more	32.5	NA	20.0	16.3	13.9	10.1	10.0
Unknown		NA				1.5	0.8
Basis for eligibility (percent children):							
Parents present:							
Incapacitated	[1] 11.7	10.2	7.7	5.9	5.3	3.4	3.6
Unemployed	[1] 4.6	4.1	3.7	5.0	4.1	9.2	8.6
Parents absent:							
Death	[1] 5.5	5.0	3.7	2.6	2.2	1.9	1.9
Divorce or separation	[1] 43.3	46.5	48.3	46.9	44.7	38.6	36.2
No marriage tie	[1] 27.9	31.5	31.0	33.8	37.8	45.5	46.4
Other reason	[1] 3.5	3.6	4.0	5.7	5.9	1.4	1.2
Education of mother (percent of mothers):							
Less than 8th Grade	19.0	NA	10.3	6.8	5.1	NA	NA
8th Grade	10.4	NA	6.4	4.8	4.4	NA	NA
1–3 years of HS	30.7	NA	31.7	25.1	20.8	NA	NA
High School Degree	16.0	NA	23.7	20.5	18.8	NA	NA
Some College	2.0	NA	3.9	3.0	2.7	NA	NA
College Graduate	0.2	NA	0.7	0.4	0.4	NA	NA
Unknown	21.6	NA	23.3	39.4	47.8	NA	NA
Age of mother (percent of mothers):							
Under 20	6.6	NA	8.3	8.1	[5] 4.1	[5] 3.6	NA

TABLE 22.—AFDC CHARACTERISTICS, 1969–84—Continued

	May 1969	January 1973	May 1975	March 1977	March 1979	1983 [4]	1984 [4]
20 to 24	16.7	NA	(8)	(9)	[6] 28.0	[6] 28.6	NA
25 to 29	17.6	NA	(8)	(9)	[7] 21.4	[7] 23.8	NA
30 to 39	30.4	NA	27.9	24.2	[7] 27.2	[7] 27.9	NA
40 or over	25.0	NA	17.6	17.7	[7] 15.4	[7] 15.7	NA
Unknown	3.6	NA	3.0	7.2	[7] 4.0	[7] 0.3	NA
Ages of children (percent of recipient children):							
Under 3	14.9	NA	16.5	17.3	18.9	22.5	21.6
3 to 5	17.6	NA	18.1	17.8	17.5	20.1	21.0
6 to 11	36.5	NA	33.7	33.9	33.0	31.5	31.9
12 and over	31.0	NA	30.9	30.1	29.8	25.5	25.5
Unknown		NA	0.8	0.9	0.9	0.3	0.2
Mother's employment status (percent):							
Full-time job	8.2	9.8	10.4	8.4	8.7	1.5	1.2
Part-time job	6.3	6.3	5.7	5.3	5.4	3.4	3.6
Presence of income (percent families):							
With earnings	NA	16.3	14.6	12.9	12.8	5.7	6.0
No non-AFDC income	56.0	66.9	71.1	[2] 78.2	[2] 80.6	[2] 86.8	[2] 87.8
Median months on AFDC since most recent opening	23.0	27.0	31.0	26.0	29.0	26.0	26.0
Race (percent caretakers) [3]							
White	NA	38.0	39.9	41.4	40.4	41.8	41.3
Black	45.2	45.8	44.3	43.8	43.1	43.8	41.9
Hispanic	NA	13.4	12.2	12.2	13.6	12.0	12.8
Native American	1.3	1.1	1.1	1.1	1.4	1.0	1.1
Asian	NA	NA	.5	.4	1.0	1.5	2.3
Other and unknown	4.8	1.7	2.0	1.9	.4	NA	.6
Incidence of households (percent):							
Living in public housing	12.8	13.6	14.6	14.9	NA	10.0	10.1
Participating in food stamp or donated food program	52.9	68.4	75.1	74.0	75.1	83.0	80.1
Including nonrecipicant members	33.1	34.9	34.8	NA	NA	36.9	36.9
Father's relationship to youngest child (percent):							
No father	NA	NA	NA	NA	84.7	89.8	89.8
Natural father	NA	NA	NA	NA	9.6	NA	NA
Adoptive father	NA	NA	NA	NA	0.0	NA	NA
Stepfather	NA	NA	NA	NA	5.6	NA	NA

[1] Calculated on the basis of total number of families.
[2] State collected child support directly beginning in 1975, removing one source of non-AFDC income.
[3] For 1983, 12.6 percentage points where race was unknown were allocated proportionately across all categories. For 1984, 3.6 percent unknown were distributed proportionately within States reporting large proportions of unknown.

[4] Data are for the Federal fiscal year October through September. All percentages are based on the average monthly caseload during the year. Hawaii and the teritories are not included in 1983.
[5] Under age 19. Includes other caretaker adult if mother absent.
[6] Ages 19–24. Includes other caretaker adult if mother absent.
[7] Includes other caretaker adult if mother absent.
[8] The percentage for 20 to 29 year olds was 43.1.
[9] The percentage for 20 to 29 year olds was 42.8.

Source: Office of Family Assistance, Family Support Administration and Congressional Budget Office.

Table 23 presents data about the employment status of the AFDC mother (or other caretaker relative), information about her status with the work incentive program (WIN), and data about tenure on AFDC.

The table indicates that the share of mothers (or other caretaker relatives) working full time declined from 8 percent in 1979 to 1.2 percent in 1984; the share working part-time fell from 5.0 percent to 3.7 percent in the same period.

The table also indicates that the share of families who received benefits for more than 5 years (since the most recent opening of their case) declined from 26.9 percent in 1979 to 23.4 percent in 1984.

TABLE 23.—EMPLOYMENT AND WIN STATUS OF AFDC MOTHERS, TENURE OF AFDC FAMILIES, MARCH 1979, MAY 1982, FISCAL YEAR 1983 AND 1984 [1]

	Percent of total caseload			
	March 1979 [2]	May 1982 [3]	1983 [4]	1984 [4]
WIN status of mother (or other caretaker):				
No mother or (caretaker) mother not receiving payment	18.0	12.2	8.7	.....
Mandatory registrant	20.6	25.9	28.8	30.3
Voluntary registrant	4.1	1.6	1.8	2.5
Ill or incapacitated	4.1	3.0	3.8	3.2
Child or other care	43.1	40.6	43.0	51.4
No WIN project	7.2	10.5	NA	NA
Other	2.9	6.2	10.8	10.7
Unknown	NA	NA	3.2	2.0
Employment status of mother (or other caretaker):				
No mother (caretaker)	8.3	12.2	8.7	.....
Full-time work, 35 or more hours per week	8.0	1.3	[5] 1.5	[5] 1.2
Part-time work, fewer than 35 hours per week	5.0	4.3	[5] 3.4	[5] 3.7
Incapacitated	6.0	NA	4.1	3.3
At school	2.6	NA	2.0	1.7
On layoff	0.5	NA	0.8	.4
Seeking work	9.1	NA	NA	21.8
Other—needed at home or not actively seeking work	60.5	82.2	79.5	64.8

TABLE 23.—EMPLOYMENT AND WIN STATUS OF AFDC MOTHERS, TENURE OF AFDC FAMILIES, MARCH 1979, MAY 1982, FISCAL YEAR 1983 AND 1984 [1]—Continued

	Percent of total caseload			
	March 1979 [2]	May 1982 [3]	1983 [4]	1984 [4]
Number of months on AFDC since most recent opening:				
1 to 6 months	16.4	20.0	18.9	18.1
7 to 12 months	12.5	12.4	13.1	12.8
13 to 24 months	16.7	16.2	16.6	17.8
25 to 36 months	11.4	12.6	12.0	11.4
37 to 60 months	15.3	14.2	15.4	16.2
61 plus months	26.9	23.5	23.7	23.4
Unknown	0.8	1.1	.3	0.1

[1] See text about difference in data sources for 1979 and 1982.
[2] Source: Committee staff tabulation of March 1979 AFDC recipients' data base.
[3] Source: Office of Family Assistance, FSA.
[4] Fiscal year average monthly. 1983 does not include Hawaii or the territories.
[5] Full-time work, 30 hours or more per week; part-time work, fewer than 30 hours per week.

Table 24 presents data on income sources of AFDC families. It indicates that the share of AFDC families with earnings from the mother (or other caretaker relative) or from the spouse of the caretaker relative declined from 12.0 percent in March 1979 to 5.2 percent in 1984. Further, according to the table, the average amount earned dropped, from $382 to $245 for mothers with earnings; and from $323 to $270 for fathers (or spouses of caretaker relatives) with earnings.

TABLE 24.—INCOME SOURCES OF AFDC FAMILIES,[1] MARCH 1979,[2] MAY 1982,[3] FISCAL YEARS 1983 AND 1984

Income source	Percentage of caseload with income type				Average amount for those with income type			
	March 1979	May 1982	1983	1984	March 1979	May 1982	1983 [4]	1984 [4]
Earned income:								
Mother (or caretaker relative)	12.0	5.3	4.9	5.2	$382	$261	237	245
Father (or spouse of caretaker relative)	0.6	0.4	0.5	0.6	323	244	269	270
Children (14+)	0.1	(5)	0.2	0.2	206	398	197	237
Other adults	0.1	NA	0.1	NA	265	NA	279	NA
Public service	0.1	NA	NA	NA	246	NA	NA	NA
OASDI	3.1	2.5	2.2	1.9	134	145	226	201
Veterans' benefits	0.4	NA	NA	NA	128	NA	NA	NA
Other pensions	0.4	0.4	0.4	0.4	143	134	196	217
Unemployment compensation	0.7	1.0	1.2	0.7	238	255	277	290
Workmen's compensation	0.1	(4)	NA	NA	237	200	NA	NA
Stepparent contributions or deemed income (1982)	0.2	0.3	NA	NA	63	159	NA	NA

TABLE 24.—INCOME SOURCES OF AFDC FAMILIES,[1] MARCH 1979,[2] MAY 1982,[3] FISCAL YEARS 1983 AND 1984—Continued

Income source	Percentage of caseload with income type				Average amount for those with income type			
	March 1979	May 1982	1983	1984	March 1979	May 1982	1983 [4]	1984 [4]
Contributions from other persons	0.6	0.9	NA	NA	72	79	NA	NA
Other cash income	1.9	2.5	[6] 5.1	[6] 2.9	81	251	165	103
In-kind income	0.4	NA	NA	NA	71	NA	NA	NA
Total	19.4	NA	13.2	12.2	299	NA	238	225

[1] See text about differences in data sources for 1979 and 1982.
[2] Source: Committee staff tabulation of March 1979 AFDC recipients' data base.
[3] Source: Office of Family Assistance, FSA.
[4] Fiscal year average monthly. 1983 does not include Hawaii or the territories.
[5] Less than 0.05 percent.
[6] Includes Federal SSI, State SSI, general assistance, income from assets and property and other unearned income.

NA—not available.

Table 25 provides data on the share of AFDC families whose benefits were based on less than their gross cash income. That is, it summarizes information about disregarded (uncounted) income.

The table shows a decline in the share of families receiving the work incentive disregard (exclusion of the first $30 earned monthly plus one-third of the rest of earnings). This work incentive bonus was repealed in 1981, except for the first 4 months of a job. It indicates that the average amount of child care costs disregarded declined from $101 monthly in March 1979 (for those with such costs) to $86 in May 1982, rose to $96 in 1983, and declined to $93 in 1984.

TABLE 25.—INCOME OF AFDC FAMILIES NOT COUNTED BY THE PROGRAM,[1] MARCH 1979,[2] MAY 1982,[3] FISCAL 1983 AND 1984 [4]

Disregards	Percent of caseload with disregard				Average amount for those with disregard			
	March 1979	May 1982	1983	1984	March 1979	May 1982	1983	1984
Optional $5 disregard	1.1	(5)	(5)	(5)	$6	(5)	(5)	(5)
$30 and one-third of earned income	12.5	[6] 2.5	1.8	2.1	147	[6] $62	$90	90
Child care	3.9	1.3	1.0	1.0	101	86	96	93
Other work expenses	8.4	5.2	4.4	4.9	95	54	59	60
Cases with child care and other work expenses [7]	3.0	.....	.....	.....	100	.....	.....	.....
Child support	0.1	(8)	NA	NA	93	NA	NA	NA
Other	1.6	0.4	NA	NA	77	100	NA	NA

TABLE 25.—INCOME OF AFDC FAMILIES NOT COUNTED BY THE PROGRAM,[1] MARCH 1979,[2] MAY 1982,[3] FISCAL 1983 AND 1984 [4]—Continued

Disregards	Percent of caseload with disregard				Average amount for those with disregard			
	March 1979	May 1982	1983	1984	March 1979	May 1982	1983	1984
Total	13.8	NA	4.6	5.0	250	NA	113	116

[1] See text about differences in data sources for March 1979 and May 1982.
[2] Source: Committee staff tabulation of March 1979 AFDC recipients' data base.
[3] Source: Office of Family Assistance, FSA.
[4] Average monthly for fiscal years.
[5] Repealed by 1981 law.
[6] Limited to 4 months' duration by 1981 law.
[7] In these cases, there was insufficient information in the data file to distinguish between child care and other work expenses.
[8] Less than 0.05 percent.

NA—Not available.

The AFDC recipient population is not a homogenous group of families or individuals as illustrated in Table 26. The table subdivides the AFDC caseload into seven mutually exclusive and exhaustive groups. Column one of the table contains data on the entire caseload. Column two of the table describes the AFDC units with no adult recipients. They represent 9.3 percent of the AFDC units and 6.0 percent of total payments. In 1979, they received 9.5 percent of the total payments. The average payment per case is $205 per month.

Columns 3–6 represent characteristics of the more typical AFDC units—one adult with children. The one adult caseload was split into four groups based on the reason for deprivation of the youngest child. Column three are those cases with one adult and the reason for AFDC eligibility is that the other adult is absent because they are not married; these represent 46.0 percent of AFDC units.

The final two columns (columns seven and eight) of the table present characteristics of cases with two adult recipients. Column eight represents those cases where one parent is incapacitated, and column seven presents data on the unemployed parents (AFDC–UP) program caseload. In total, they represent about 9.6 percent of the total caseload and receive about 14 percent of the total payments. The cases where one parent is incapacitated tend to be older, as demonstrated by both the age of the mother and the age of the youngest child.

TABLE 26.—1984 AFDC CHARACTERISTICS

	Total	No adult	One adult				Two adult	
			Not married	Divorced or legally separated	Not legally separated or divorced	Other reasons	Unemployed parent	Other
Number of families (in thousands) [1]	3,694	345	1,698	564	528	206	269	85
Percent of Total	100.0	9.3	46.0	15.3	14.3	5.6	7.3	2.3
Average monthly payment	$319	$205	$308	$335	$339	$309	$472	$385
Percent of total payments	100.0	6.0	44.4	16.0	15.2	5.4	10.8	2.8
Average number in assistance unit	2.9	1.6	2.9	3.0	3.2	2.6	4.4	4.3
Food Stamps:								
Percent participating	82.3	54.5	82.9	87.3	86.0	81.1	95.1	89.3
	Percentage Distributions							
Number of recipients:								
One	7.0	61.0	0.0	0.0	0.0	21.3	21.9	0.0
Two	38.4	25.0	50.3	39.3	31.3	35.9	0.0	5.2
Three	27.5	9.1	27.1	35.2	35.1	0.0	26.7	28.3
Four	15.6	3.5	13.6	17.6	20.0	11.9	32.7	27.8
Five	7.2	0.9	5.9	5.7	8.9	5.4	22.8	19.7
Six	2.7	0.3	2.0	1.5	3.3	1.6	11.6	10.6
Seven or more	1.5	0.1	1.1	0.6	1.3	2.0	6.1	8.4
Number of Nonrecipients:								
Zero	63.4	3.2	66.6	73.8	72.9	50.3	86.7	82.1
One	16.2	40.3	13.3	14.0	12.8	27.5	7.9	10.6
Two	8.8	23.1	7.9	7,0	7.0	10.7	2.4	3.6
Three or more	11.6	33.3	12.2	5.2	7.3	11.6	2.9	3.6
Shelter:								
Owns or buying	6.1	7.6	2.5	10.0	5.6	8.6	14.6	20.8
Public housing	10.1	8.2	12.1	8.6	9.2	9.2	6.4	8.9
HUD rent subsidy	7.6	3.4	8.3	9.8	7.8	6.0	5.1	5.8
Other subsidy	1.5	0.8	1.6	1.7	1.4	1.3	1.2	1.1
Private housing	66.4	62.8	66.6	64.6	68.9	67.6	70.6	60.0
Rents free	2.4	3.9	2.8	1.7	2.4	2.6	0.7	0.7
Group quarters	5.7	13.4	6.2	3.6	4.7	4.7	1.5	2.7
Number of child recipients:								
Zero or one	44.2	58.4	50.5	39.6	31.6	40.0	27.0	27.2
Two	29.9	27.1	26.9	35.1	35.1	29.0	32.6	30.1
Three	15.4	8.9	13.6	17.5	19.8	14.2	22.7	19.3
Four or more	10.5	5.6	8.9	7.8	13.5	16.8	17.8	23.5
Race of caretaker: [1]								
White	41.2	32.6	27.4	71.3	40.9	43.5	71.1	65.3
Black	43.1	49.0	59.3	17.6	37.9	32.7	9.0	13.6
Asian and Hispanic	12.6	14.4	11.7	9.1	18.3	15.0	8.9	16.5
American Indian	3.2	3.8	1.6	1.9	2.8	8.8	10.7	4.6
Age of youngest child in AFDC unit: [1]								
Under 3	38.0	25.1	46.9	12.9	34.4	50.4	51.5	40.4
3 to 5	22.9	15.4	25.2	23.9	25.4	10.9	19.9	18.0
6 to 11	24.0	28.4	19.6	38.5	24.3	17.8	20.2	23.0
12 to 15	11.0	20.8	6.4	18.5	12.3	13.4	5.8	14.3
16 to 18	4.0	10.3	2.0	6.1	3.6	7.4	2.5	4.4
Number of months continuously on AFDC								
6 or less	18.1	16.7	14.5	18.4	21.9	26.6	26.5	27.9

TABLE 26.—1984 AFDC CHARACTERISTICS—Continued

	Total	No adult	One adult				Two adult	
			Not married	Divorced or legally separated	Not legally separated or divorced	Other reasons	Unemployed parent	Other
7 to 12	12.8	12.5	11.6	13.2	14.2	11.0	18.6	14.5
13 to 18	9.9	9.0	9.5	10.3	10.3	9.0	12.4	9.6
19 to 24	7.9	7.4	7.9	8.1	7.7	6.5	9.4	8.1
25 to 36	11.5	9.9	11.7	12.0	10.8	9.2	14.2	11.6
37 to 48	9.3	8.5	9.8	9.7	8.6	8.1	8.3	7.8
49 to 60	7.0	6.7	7.8	7.3	5.5	6.3	5.1	5.4
61 to 120	15.6	17.8	17.9	15.3	13.3	14.2	4.4	11.3
121 to 180	6.3	8.6	7.2	4.9	5.9	6.9	0.9	2.7
181 and up	1.6	2.8	2.0	0.9	1.7	2.1	0.1	1.0
Age of female adult recipient: [1]								
11 to 18	3.4	NA	5.1	0.3	1.4	4.6	2.0	2.0
19 to 21	13.1	NA	18.0	3.8	7.9	13.5	12.4	7.1
22 to 25	21.7	NA	25.4	14.5	19.3	18.1	21.8	14.4
26 to 29	19.3	NA	19.2	20.1	20.7	12.6	21.2	14.2
30 to 34	17.5	NA	14.7	25.5	19.9	12.7	18.0	18.8
35 to 39	11.4	NA	8.3	18.2	13.7	11.7	11.4	14.8
40 and up	13.5	NA	9.1	17.5	16.8	26.6	13.3	28.6
AFDC female adults employment status: [1]								
Employed part-time	3.7	NA	2.8	7.0	3.3	3.1	3.8	3.1
Employed full-time	1.2	NA	0.9	2.0	1.4	0.9	1.0	1.3
Employed other	0.2	NA	0.2	0.4	0.2	0.2	0.2	0.6
Not employed	72.1	NA	76.8	56.4	71.2	72.7	76.8	76.6
Unemployed	22.8	NA	19.4	34.2	23.9	23.1	18.1	18.4
AFDC male adult work program status: [1]								
Registered	69.1	NA	39.5	62.3	53.7	46.8	87.0	27.6
Exempt	30.9	NA	60.5	37.8	46.3	53.1	13.0	72.4
AFDC adults exempt from work programs—reasons for exemption:								
Aged, poor health	5.4	NA	3.0	8.8	4.9	19.3	1.1	24.2
Child under age	75.9	NA	83.3	63.6	78.5	54.9	66.9	51.8
Student and/or employed	1.1	NA	0.8	1.9	1.3	1.1	1.4	1.8
Other	17.6	NA	12.9	25.7	15.3	24.7	30.6	22.2
Percent with income	12.2	2.9	9.3	17.8	11.8	20.6	21.9	23.2
Average amount of income [2]	$226	$174	$203	$224	$222	$224	$285	$286
Percent with earned income	6.0	.5	4.3	10.6	5.6	5.3	13.8	10.0
Average monthly earned income [2]	$253	$206	$242	$242	$252	$230	$297	$248
Percent of earned income disregarded	38.7	10.2	41.5	39.1	39.5	30.7	37.1	35.4
Percent with unearned income	6.7	2.4	5.2	7.8	6.6	16.1	9.5	14.1
Average amount of unearned income [2]	$187	$164	$161	$182	$183	$211	$227	$294
Percent with countable assets	17.6	8.2	12.5	31.0	15.8	17.7	35.2	32.0
Income of persons not in assistance unit:								
Percent with income	36.7	96.8	33.6	26.2	27.1	49.8	13.4	18.0
Average monthly amount [2]	$390	$384	$394	$391	$417	$402	$394	$299
Percent with earned income	1.9	6.6	1.5	1.6	1.4	1.3	0.8	0.6
Percent with public assistance income	12.6	86.1	4.8	2.9	3.6	18.7	2.6	2.9
Percent with unearned income	3.5	14.7	2.6	2.0	1.8	6.1	0.6	1.5

[1] "Unknown" category proportionally allocated.
[2] Average for those with income.
Source: Office of Family Assistance.

Welfare Dependency and Turnover Within the AFDC Caseload

A 1983 study of AFDC families [2] found that although most "spells" of AFDC are relatively short, most persons enrolled in the program at any point in time are in the midst of spells that last at least 8 years. The study reported that half of AFDC spells lasted less than two years, but that 50 percent of the persons enrolled at a point in time were in the midst of very long episodes of AFDC and that such long-term recipients used most of the resources of the program (see first two columns of table 27).

TABLE 27.—DISTRIBUTION OF LENGTH OF TOTAL TIME ON AFDC

[In percent]

	Distribution of AFDC spell		Total time on welfare (includes multiple spells)	
	Persons beginning first AFDC spell	Persons on AFDC at a point in time	Persons beginning first AFDC spell	Persons on AFDC at a point in time
1 to 2 years	48	14	30	7
3 to 7 years	35	36	40	28
8 or more years	17	50	30	65
All	100	100	100	100

Source: Ellwood, David T. "Targeting the Would-be Long Term Recipient of AFDC: Who Should Be Served?" Harvard University, 1985; and Bane, Mary Jo, and Ellwood, David T., The Dynamics of Dependence; the Routes to Self-Sufficiency.
Note: Based on annual data from the Panel Study of Income Dynamics.

Several studies are in remarkable agreement about the duration of welfare spells:[3]

A majority of welfare spells are short-term, lasting 2 years or less, while fewer than one-sixth can be thought of as long-term, lasting 8 or more years.

However, at any single point, half of all welfare recipients are in the midst of long-term spells.

These seemingly paradoxical findings highlight a crucial element of welfare dynamics. The short-term nature of most welfare spells is reflected in figures on individuals who began welfare spells at any time between the mid-1960's and the late 1970's.

While the large difference between the ever-began and point-in-time welfare groups may seem paradoxical, it is easily explained

[2] Bane, Mary Jo, and Ellwood, David T., The Dynamics of Dependence; The Routes to Self-Sufficiency. Prepared for the U.S. Department of Health and Human Services under contract No. HHS-100-82-0038, June 1983. (Prepared by Urban Systems Research and Engineering, Inc., Cambridge, Mass.)
[3] This section borrows heavily from testimony by Dr. Greg J. Duncan to the Subcommittte on Public Assistance and Unemployment Compensation on May 22, 1986.

and, indeed, characteristic of spells of poverty and unemployment as well. It occurs because the probability of being on welfare (poor, unemployed) at a given time is necessarily higher for longer-term recipients than for those who have shorter welfare (poverty, unemployment) spells. The point-in-time welfare sample is thus a biased sample of all welfare recipients.

An example of spells of hospitalization will help to establish this point. Consider a 13-bed hospital in which 12 beds are occupied for an entire year by 12 chronically ill patients, while the other bed is used by 52 patients, each of whom stays exactly 1 week. On any given day, a hospital census would find that about 85 percent of patients (12/13) were in the midst of long spells of hospitalization. Nevertheless, viewed over the course of a year, short-term use clearly dominates: out of the 64 patients using hospital services, about 80 percent (52/64) spent only 1 week in the hospital. Exactly the same kind of dynamics of use accounts for the results with regard to welfare experience. One of the most important lessons from the longitudinal evidence is that while the welfare population at any point is composed predominantly of long-term users, the typical recipient is a short-term user.

A potential weakness of spell analysis is its emphasis on spells rather than on the cumulative welfare experience of a family. For example, an individual could be on welfare for one or two years, then off for a while and then back on. Research on this issue confirms that multiple spells of welfare receipt are common. About one-third of all welfare spells are followed by subsequent spells. Allowance for multiple spells alters the distribution of total expected time on welfare.

As the last two columns of Table 27 illustrate, approximately 30 percent of individuals beginning their first AFDC spell will remain on AFDC 2 years or less. This compared to the previous estimate of almost 50 percent. For a person on AFDC at a given point in time, there is a 65 percent probability he will be on AFDC 8 or more years.

Beginnings of AFDC spells.—As table 28 illustrates, three-fourths of all spells began with a relationship change that created a female-headed family with children. Almost half the AFDC spells started after a wife became a female family head (by loss of the male head and his earnings due to absence, divorce, separation, death). Another 30 percent began when a never-married, divorced, or separated woman acquired a child.

In contrast to changes in family composition, changes in earnings were a relatively minor cause of resorting to welfare. Only 15 percent of AFDC spells could be traced to a drop in family earnings.

Endings of AFDC spells.—The most common route out of AFDC was by way of a change in family structure. Some 46 percent of endings occurred this way—35 percent when a female head became a wife and 11 percent when the household no longer contained a child under 18.

Increased earnings were much more significant in ending AFDC than decreased earnings were in starting it. Some 26 percent of endings occurred this way—21 percent when the female head her-

self earned more money and 5 percent when another member of the family increased earnings.

Poverty status.—About 40 percent of those who ended AFDC spells were poor after their exit. About 52 percent of those whose AFDC eligibility ended because they no longer had an eligible child were poor in the following year. For those who earned their way off AFDC, about 32 percent were poor in the year after their welfare spell; their poverty reflected the sub-poverty gross income eligibility limits of AFDC in many States.

TABLE 28.—EVENTS ASSOCIATED WITH THE BEGINNINGS AND ENDINGS OF AFDC SPELLS

Beginnings	Percent	Endings	Percent
Divorce/separation	45	Marriage	35
Childless, unmarried woman becomes a female head with children.	30	Children leave parental home	11
Earnings of female head fell	12	Earnings of female head increased.	21
Earnings of others in family fell	3	Earnings of others in family increased.	5
Other income fell	1	Transfer income increased	14
Other (including unidentified)	9	Other (including unidentified)	14
All	100	All	100

Sources: "Beginnings": Bane and Ellwood (1983), p. 18, USING PSID data. "Endings: Ellwood (1985), p. 46, using PSID data.

Long-term dependence.—Intergenerational welfare dependence has also been examined by researchers. Using data from the Panel Study of Income Dynamics, Hill and Ponza found in 1984 that/ most daughters in welfare dependent families did not become welfare dependent as young adults. As table 29 illustrates only 19 percent of black daughters and 26 percent of white daughters in highly dependent welfare families became highly dependent themselves. It is also interesting to note that fully 42 percent of the black daughters and 27 percent of the white daughters who grew up in families which were heavily dependent on welfare received *no* welfare as young adults.

Data from the Panel Study of Income Dynamics also illustrate the extent of welfare dependency among Americans. This is accomplished by selecting a sample of the total population and recording the extent to which these families relied on welfare (AFDC and Food Stamps) during the period from 1970 to 1979. Table 30 illustrates the results of this analysis. Among all races, 85 percent of the population lived in families in which *no* AFDC income was received during the 1970–79 period. Slightly fewer children (81.2 percent) received no AFDC.

Table 30 also presents data on the welfare dependence of families for whom AFDC plus Food Stamps constituted 50 percent of the family's income. Using this approach, only 3.8 percent of all nonwhite Americans and 0.2 percent of all white Americans were long-

term welfare dependent between 1970 and 1979.

TABLE 29.—INTERGENERATIONAL TRANSMISSION OF WELFARE DEPENDENCY

Parental welfare status	Status of daughters as young adults			Total (percent)	Number of observations
	Received no welfare (percent)	Low welfare dependence	High welfare dependence		
Received no welfare:					
Black	53	33	14	100	108
White	79	19	2	100	354
Low welfare dependence:					
Black	31	49	20	100	130
White	63	31	5	100	75
High welfare dependence:					
Black	42	39	19	100	92
White	27	47	26	100	25

Note.—"High Welfare Dependence" is defined as receiving at least 25 percent of average family income as cash welfare payments. Parental measures are typically averaged over 7 years during the time the child is 10 to 16 years old. Measures on the children as young adults are typically measured over 7 years during the time the child is 24 to 30 years old.

Source: Hill, Martha S., and Ponza, Michael. "Does Welfare Dependency Beget Dependency?" Institute for Sorcial Research, Fall 1984. Mimeo.

Source of data: Panel Study of Income Dynamics.

TABLE 30.—WELFARE DEPENDENCY, 1970–79, BY VARIOUS DEFINITIONS OF DEPENDENCY

Years on welfare	Percent receiving AFDC			Percent receiving AFDC and AFDC plus food stamps was at least 50% of total family income		
	Entire population	Children, age 0 to 5 in 1970	Women, age 18 to 55 in 1970	Entire population	Children, age 0 to 5 in 1970	Women, age 18 to 55 in 1970
All races:						
0 years	85.0	81.2	85.9	92.7	89.1	93.0
1 to 2 years	7.4	7.3	6.7	3.8	4.2	3.3
3 to 7 years	5.3	6.1	5.1	2.7	4.9	3.0
8 to 10 years	2.2	4.4	2.3	0.7	1.7	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
White:						
0 years	89.9	87.3	90.7	95.7	93.6	96.0
1 to 2 years	5.7	5.9	4.9	2.6	3.0	2.1
3 to 7 years	3.3	4.4	3.1	1.7	3.0	1.6
8 to 10 years	1.1	2.4	1.2	0.2	0.4	0.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
Nonwhite:						
0 years	58.1	49.4	58.5	76.1	65.3	76.0
1 to 2 years	16.9	14.6	16.3	10.5	11.0	10.0

TABLE 30.—WELFARE DEPENDENCY, 1970–79, BY VARIOUS DEFINITIONS OF DEPENDENCY—Continued

Years on welfare	Percent receiving AFDC			Percent receiving AFDC and AFDC plus food stamps was at least 50% of total family income		
	Entire population	Children, age 0 to 5 in 1970	Women, age 18 to 55 in 1970	Entire population	Children, age 0 to 5 in 1970	Women, age 18 to 55 in 1970
3 to 7 years	16.6	21.6	16.8	9.6	15.4	10.4
8 to 10 years	8.6	14.5	8.4	3.8	8.3	3.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Table reads: 85.0 percent of the population lived in families in which no AFDC income was received during the 1970–79 period.

Source: Panel Study of Income Dynamics.

TABLE 31.—PERCENTAGE OF AFDC RECIPIENTS WITH VARIOUS CHARACTERISTICS AND AVERAGE TOTAL DURATIONS OF AFDC RECEIPT

Recipient characteristics at time of first spell beginning	Percent of all first-time recipients (new beginnings)	Percent of recipients at any point in time [1]	Average number of years of AFDC receipt	Percent who will have AFDC spells of 10 or more years
Age:				
Under 22	30.0	35.9	8.23	32.8
22 to 30	40.7	41.9	7.08	25.8
31 to 40	11.8	8.8	5.15	15.0
Over 40	17.6	13.4	5.23	15.8
Race/ethnicity:				
White	55.2	47.7	5.95	19.6
Black	40.1	47.4	8.14	32.0
Other	4.8	4.8	6.94	25.5
Years of education:				
Under 9	9.7	9.6	6.81	24.5
9 to 11	37.6	41.9	7.65	29.2
Over 11	52.7	48.5	6.33	21.8
Marital status:				
Single	29.5	40.0	9.33	39.3
Divorced	28.1	20.2	4.94	13.7
Separated	32.3	31.9	6.80	24.4
Widowed	8.4	5.3	4.37	10.2
Number of children:				
0 to 1	43.4	48.7	7.71	29.7
2 to 3	42.8	37.3	6.04	20.1
Over 3	13.8	13.7	6.83	24.5
Age of youngest child:				
Under 3	51.3	60.4	8.09	31.9
3 to 5	22.5	22.3	6.79	24.2
6 to 10	19.7	12.9	4.51	11.3

TABLE 31.—PERCENTAGE OF AFDC RECIPIENTS WITH VARIOUS CHARACTERISTICS AND AVERAGE TOTAL DURATIONS OF AFDC RECEIPT—Continued

Recipient characteristics at time of first spell beginning	Percent of all first-time recipients (new beginnings)	Percent of recipients at any point in time [1]	Average number of years of AFDC receipt	Percent who will have AFDC spells of 10 or more years
Over 10	6.5	4.4	4.71	12.4
Work experience:				
Worked in the last 2 years	65.8	59.6	6.53	23.0
Did not work in the last 2 years	34.2	39.8	8.00	31.2
Disability status:				
No disability	81.6	81.4	6.85	24.8
Disability limits work	18.4	18.6	6.97	25.0

[1] These figures assume that the AFDC caseload is a "steady state."

Source: David T. Ellwood. "Targeting Would-Be Long-Term Receipts of AFDC," Table IV–1. Simulation model estimates are based on the 15-year panel study of income dynamics. For each individual who began a first spell on or after the third sample year of the PSID, probabilities are predicted for exiting from first spell, for recidivism, and for exiting from later spells, based on the logit models.

The 1984 Amendments

In June of 1984, Congress enacted H.R. 4170, the Deficit Reduction Reduction Act of 1984 (Public Law 98–369). This new law, which took effect on October 1, 1984, includes 22 AFDC amendments and an income and asset verification amendment which affected several programs, and are summarized below:

1. Gross income limitation.—Under prior law, eligibility for AFDC was limited to families with gross incomes at or below 150 percent of the State standard of need. The act increases the gross income limitation to 185 percent of the State standard of need.

2. Work expense deduction.—Under prior law, States were required to disregard the first $75 of monthly earnings for full-time work expenses; a lower deduction applied to part-time workers. The act requires States to disregard the first $75 monthly for full and part-time workers.

3. Continuation of $30 disregard.—Under prior law, the $30 plus one-third of remaining earnings disregard was limited to 4 months. The act retains the 4-month limit on the one-third disregard but extends the $30 disregard for an additional 8 months for a total of 12 months.

4. Work transition status.—Under prior law, a family who lost AFDC eligibility due to the 4-month limit on the earnings disregard, simultaneously lost categorical eligibility for Medicaid. The act provides that families who lose AFDC because of the termination of the earnings disregard will be eligible for 9 months of Medicaid coverage. At State option, an additional 6 months of Medicaid coverage can be provided. In addition, families who lost AFDC eligibility prior to enactment of the work transition will also be eligible for Medicaid under certain specified circumstances.

5. Clarification of earned income provisions.—The act clarifies that the term "earned income" as used in the AFDC program means the gross amount of earnings, prior to the taking of payroll or other deductions.

6. Burial plots, funeral agreements and certain property.—Under prior law, burial plots and funeral agreements were counted toward the $1,000 asset limit. The act exempts from the AFDC resources limitation, burial plots and funeral agreements. An AFDC policy on real property that is similar to SSI policy is also established.

7. Federal matching for Community Work Experience Program (CWEP) expenses.—Under prior law, States were required to reimburse a CWEP participant for necessary transportation and other expenses. Federal matching for this reimbursement was by regulation, limited to $25 per month. The act requires States to reimburse a CWEP participant for costs incurred if the State is unable to provide directly any transportation or day care services. Reimbursement of day care expenses is limited to those determined by the State to be reasonable, necessary and cost effective up to $160 per month per child.

8. Retrospective budgeting and monthly reporting.—Under prior law, monthly reporting and retrospective budgeting were required for all AFDC cases; however, the Secretary of Health and Human Services could waive the monthly reporting requirement if it was not cost effective to require the report. The act mandates retrospective budgeting for cases filing a monthly report. Monthly reporting is required when cost effective; cases with earned income and recent work history must report monthly.

9. Earned income tax credit (EITC).—Under prior law, States were required to assume that an individual was receiving the earned income tax credit on an advance basis regardless of when or if it was received. The act requires States to count the EITC only when actually received.

10. Demonstrations of one-stop service delivery.—The act authorizes from 3 to 5 Federally-assisted demonstration projects designed to test the effectiveness and efficiency of integrating the delivery of human services.

11. Work requirements for pregnant women.—The act adds to those who are exempt from work registration, any woman who is in the third trimester of pregnancy.

12. Recalculation of lump sum income.—Under prior law, States could only recalculate ineligibility due to receipt of lump sum income if a life threatening circumstance occurred. The act allows States to recalculate the ineligibility period under other specified circumstances. Ineligibility may be recalculated if: (1) an event occurs which would have changed the amount of AFDC paid; (2) the income becomes unavailable for reasons beyond the family's control; and/or (3) the family incurs, becomes responsible for and pays medical bills which offset the lump sum income.

13. Overpayment recoupment.—Under prior law, States were required to attempt to recover all benefit overpayments. The act permits States to waive overpayment recovery when it is not cost effective. States will be permitted to automatically waive overpayments of less than $35. Larger overpayments must be collected

unless the State determines, after attempting to collect the overpayment, that the cost to collect would exceed the amount owed.

14. Protective payments.—Under prior law, States were required to make protective payments to a third party when a parent on AFDC failed to meet certain statutory procedural requirements. The act permits States to make the payment to the parent if, after all reasonable efforts have been made, a suitable protective payee cannot be found.

15. Eligibility requirements for aliens.—Under prior law the income of an individual who sponsors a non-refugee alien was deemed to be available to the alien for 3 years after entry into the United States. The act establishes a similar policy for aliens who are sponsored by organizations or agencies.

16. Fugitive felons.—The act permits States to disclose the current address of an AFDC recipient if a law enforcement agency provides the correct social security number and demonstrates that the recipient is a fugitive felon.

17. Payment schedule for back claims.—The act establishes a payment schedule for court-ordered reimbursements and certain other back claims owed by the Federal Government to the States that have been allowed or are pending.

18. Work supplementation program.—The act modifies the existing work supplementation program to provide additional flexibility to States in operating grant diversion programs in which all or part of the AFDC grant can be used to subsidize a job.

19. Disregard of in-kind income.—The act extends, until October 1, 1987, the disregard of certain in-kind assistance provided on the basis of need.

20. Standard filing unit/child support payments.—There was no requirement in prior law that parents and all siblings be included in the AFDC unit. The act requires States to include in the filing unit the parents and all minor siblings living with a dependent child who applies for or receives AFDC. In addition, a monthly disregard of $50 of child support received by a family is established.

21. CWEP work for Federal agencies.—The act permits Federal agencies or offices to serve as community work experience program (CWEP) sites under the same requirements as apply to other sites.

22. Earned income of full-time students.—For purposes of applying the gross income limitation, the act allows States to disregard the income of an AFDC child who is a full-time student.

23. Income and eligibility verification procedures.—Under present law, IRS wage information furnished by employers to IRS is available to State welfare agencies for use in their AFDC and food stamp programs, and to the Social Security Administration for administering the SSI program. However, IRS unearned income information (filed by a financial institution or corporation with respect to payments to individuals in the form of interest, dividends, etc.) is not available to Federal and State agencies for use in the administration of these programs. Quarterly wage information from the unemployment compensation program is available to State welfare agencies in most States.

Public Law 98–369 provides for the IRS to disclose return information with respect to unearned income to Federal, State, or local agencies administering AFDC, SSI, Medicaid, food stamps, and the

cash assistance programs administered in Puerto Rico, Guam, and the Virgin Islands.

Disclosure can only be made to agencies that meet the requirements to safeguard this confidential information against disclosure, and verification of the unearned income information is required prior to taking action to reduce or terminate benefits.

The provision also replaces existing statutory provisions relating to use (for purposes of AFDC) of return and other wage information and use of social security numbers, by adding a new section to the Social Security Act requiring States to have in effect an income and eligibility verification system for use in administering the AFDC, Medicaid, unemployment compensation, and food stamp programs (and the adult assistance programs in the territories). State agencies must request and make use of: (1) wage and other income information available under the Internal Revenue Code; and (2) quarterly wage information. Each State is required as of September 30, 1988, to maintain a quarterly wage reporting system, although not necessarily through its unemployment compensation system.

The income and eligibility system requires use of standardized data formats to facilitate exchange of information, for the purpose of identifying and reducing ineligibility and incorrect payments.

Impact of 1981 Program Changes

The Omnibus Budget Reconciliation Act of 1981 (OBRA) imposed a gross income limit for AFDC eligibility (150 percent of a State's need standard), capped the deduction for child care costs ($160 monthly per child), set a standard deduction for other work expenses ($75 monthly), and ended the work incentive disregard for working recipients after their first 4 months on a job. These provisions affected AFDC parents with jobs by reducing or ending their benefits. They also had potential effects on welfare mothers without jobs by reducing the gains possible from work, and on nonwelfare mothers with low earnings. Under previous law, a person in the latter group could increase total income by decreasing or ending earnings, enrolling in AFDC, and then resuming work. OBRA also required States to count part of the income of a stepparent as available to an AFDC child.

Former HHS Assistant Secretary Rubin reported in testimony that 408,000 families lost eligibility and 299,000 lost benefits as a result of the OBRA changes. The changes saved the Federal and State governments about $1.1 billion in 1983. This implies an average loss in benefits per family of $1,555 per year.

HHS evaluation of the 1981 AFDC amendments

A study commissioned by the Department of Health and Human Services [4] and prepared by Research Triangle Institute compared a national sample of AFDC families before and after OBRA.

Major findings include:

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[4] Final report, Evaluation of the 1981 AFDC Amendments, prepared by research Triangle Institute under task order #1, contract No. 600-82-0095, and submitted to Office of Family Assistance, Social Security Administration, April 15, 1983.

—Earners in the 1981 sample (after OBRA) were more likely than 1980 earners (before OBRA) to be off the AFDC rolls a year later. The share of September 1981 earners no longer on welfare in October 1982 was 55 percent. Of September 1980 earners, 28 percent no longer were enrolled in the program a year later.
—The rates of return to AFDC after leaving the rolls were "similar" for the two groups.
—For both groups, approximately 18 percent of AFDC recipients who began the base year (1980 or 1981) with earnings no longer had a job at the end of the year and were receiving AFDC. This suggested that a "normal" rate of job loss occurred in both years and that OBRA had not induced a widespread change in behavior.
—Of the September 1981 earners who no longer received an AFDC payment a year later, approximately 87 percent were working. Their average monthly earnings were $704. (Because of a low response rate to the follow-up survey of former AFDC recipients, however, the report said these data "must be interpreted cautiously.")
—The unemployment rate seemed to have relatively little effect on AFDC participation and on earnings of AFDC recipients.

GAO evaluation of the 1981 amendments

At the request of the House Ways and Means Committee, the U.S. General Accounting Office conducted an in-depth evaluation of the effect of the 1981 amendments on individual AFDC families in five cities: Boston, Dallas, Memphis, Milwaukee, and Syracuse. GAO examined case records, analyzed 10 years of HHS program data, and interviewed former working AFDC recipients more than a year after their termination from AFDC due to the 1981 amendments.

Findings include:

—Once the declines in caseload and outlays stabilized, OBRA had decreased the national AFDC-basic monthly caseload by 493,000 cases and monthly outlays by $93 million. However, because the caseload rose faster than predicted after this point, long-term effects are less certain.
—Working AFDC recipients who lost eligibility due to the OBRA cuts were more likely to be non-white, younger than those who remained on AFDC (28–33) and had been working for their current employer between 1.7 and 3.4 years.
—Recipients who lost AFDC eligibility suffered a substantial loss of income which they could not make up by increased earnings or other means. The average *monthly* income loss for working single parent families who lost AFDC eligibility was $186 in Memphis, $229 in Dallas, $180 in Milwaukee, $151 in Syracuse, and $115 in Boston.
—A large number of families interviewed had fallen below the poverty level after the OBRA changes were implemented. This ranged from a high of 85.5 percent of families below poverty in Memphis to a low of 28 percent of the Milwaukee families interviewed in poverty.

—Lack of health coverage was common among these former AFDC recipients. In Dallas, 59.2 percent of those families who lost AFDC did not have any health coverage. In Memphis, 45 percent, in Boston 27.5 percent, in Syracuse, 17.1 percent and in Milwaukee, 13.9 percent had no health coverage at all. Private health insurance coverage was more common in high AFDC benefit States.

—Families terminated from AFDC were more likely to face increased emergency situations. In several sites, significantly more families had to forgo medical treatment or were refused medical and/or dental treatment because they could not pay. It was also more common for these families to run out of food before the end of the month, have to seek food from a church or charity group, or need to borrow $50 or more from friends or relatives to meet expenses. In all but one site, those terminated from AFDC said they are eating worse now than before.

Budgetary Estimates of 1981–84 Legislative Changes in the AFDC Program

The 97th Congress made several changes in AFDC, most of which were estimated to reduce outlays in the program. The 98th Congress also amended AFDC, reversing some of the 1981 cuts. Below is a list of major provisions and the Federal outlay changes attributed to them by the Congressional Budget Office (CBO).

TABLE 32.—CBO ESTIMATES OF 1981, 1982, AND 1984 AFDC LEGISLATIVE CHANGES

[Millions of dollars by fiscal year]

	1982	1983	1984	1985	1986	1987
1981 CHANGES (PUBLIC LAW 97–35)						
Limit and standardize earnings disregards	−345	−315	−325	−330	−330	NA
Change determination of resources	−16	−17	−17	−17	−17	NA
Permit offset for food stamps and housing subsidies	(1)	(1)	(1)	(1)	(1)	NA
Permit community work experience programs	NA	NA	NA	NA	NA	NA
Treat lump-sum payments as income	−5	−5	−5	−5	−5	NA
Count some income of stepparents living with dependent child	−154	−145	−136	−127	−118	NA
Exclude family of a striker from eligibility	−5	−5	−5	−5	−5	NA
Lower age limit of dependent child	−50	−52	−54	−56	−57	NA
Limit AFDC for pregnant women	−20	−21	−21	−23	−23	NA
Recover overpayments/pay under-payments	NA	NA	NA	NA	NA	NA
Reduce Federal matching for training	−16	−17	−18	−20	−20	NA
Require retrospective accounting and monthly reporting	(1)	−35	−65	−65	−65	NA

TABLE 32.—CBO ESTIMATES OF 1981, 1982, AND 1984 AFDC LEGISLATIVE CHANGES—Continued

[Millions of dollars by fiscal year]

	1982	1983	1984	1985	1986	1987
Eligibility of aliens for AFDC	−15	−15	−15	−15	−15	NA
Administrative savings	−11	−14	−18	−22	−26	NA
Total—AFDC [2]	−637	−641	−679	−685	−681	NA
1982 CHANGES (PUBLIC LAW 97–248)						
Round benefits down		−9	−10	−10	−10	−10
Prorate benefits to application date		−13	−14	−14	−14	−14
End military service absence as eligibility grounds		−15	−17	−17	−17	−18
Permit State job search			NA	NA	NA	NA
Permit proration of shelter and utilities		(1)	(1)	(1)	(1)	(1)
Change error rate sanctions		0	0	−62	−63	−63
Exclude certain State payments from countable income		0	0	0	0	0
Extend WIN demonstration		0	0	0	0	0
Exclude State payments to children		0	0	0	0	0
Technical amendments		+1	0	0	0	0
Exclude home energy assistance		+1	+2	+2	0	0
Total AFDC provisions [2]		−35	−39	−101	−104	−105
Food stamp impact of AFDC provisions [2]		+16	+18	+18	+18	+19
1984 CHANGES (PUBLIC LAW 98–369)						
185 percent gross income limit				5	10	10
Raise part-time work expense deduction				20	20	20
Continue $30 for 12 months				10	10	10
Work transition Medicaid						
Optional MRRB				(1)	(1)	(1)
Count EITC only when received				8	3	3
Exempt burial plots				3	3	3
Reimburse CWEP expenses				5	5	5
Integrated service delivery					2	2
Clarify earned income definition			−5	−24	−24	−24
Standard filing unit				−135	−140	−145
$50 child support disregard [3]				115	115	115
Income verification				(1)	−30	−20
Total AFDC provisions			−5	7	−26	−21
Medicaid impact of AFDC provisions				145	175	195
Food stamp impact of AFDC provisions				−19	−21	−21
Net impact			−5	133	128	153

[1] Savings or costs of less than $5 million annually.
[2] Does not include any resulting impact on the medicaid and food stamp program.
[3] Includes the change made to Public Law 98–378 relating to calculation of the incentive payment to States.

NA—Not available.

Section 8. Child Support Enforcement Program

Background

The enactment of the Child Support Enforcement (CSE) program in 1975 represented a major new commitment on the part of the Congress to address the problem of nonsupport of children. Although prior to that time the Social Security Act had included provisions which were aimed at improving the collection of support on behalf of children with absent parents, these provisions had not proved to be effective. The 1975 amendments were aimed at strengthening in a very significant way the efforts of the Federal and State governments to improve the enforcement of child support obligations.

The 1975 legislation (Public Law 93-647) added a new part D to title IV of the Social Security Act. The statute authorizes Federal matching funds to be used for enforcing the support obligations owed by absent parents to their children and the spouse (or former spouse) with whom the children are living, locating absent parents, establishing paternity, and obtaining child and spousal support. Basic responsibility for administering the program is left to the States, but the Federal Government also plays a major role in funding, monitoring and evaluating State programs, providing technical assistance, and in certain instances, in undertaking to give direct assistance to the States in locating absent parents and obtaining support payments from them. The program requires the provision of child support enforcement services for both welfare and nonwelfare families and States must frequently publicize, through public service announcements, the availability of child support enforcement services, together with information about the application fee and a telephone number or address to be used to obtain additional information.

Who Is Served

Each State's plan must provide that the child support agency will undertake to secure support for an AFDC child whose rights to support have been assigned to the State. This includes nearly all AFDC children, since assignment of rights to support is a condition of eligibility for AFDC benefits. The State must also provide in its plan that it will undertake to establish the paternity of an AFDC child who is born out of wedlock. These requirements apply in all cases except where, in accordance with standards established by the Secretary, the State finds that to apply them would be against the best interests of the child. For families whose AFDC eligibility ends due to the receipt of (or an increase in) child support, States must continue to provide child support enforcement services, without imposing the application fee, discussed below, that is required

for non-AFDC cases. This policy was established by Public Law 98-378.

With respect to non-AFDC families, the law provides that the State must make available, once an application is filed with the State agency, the child support collection and paternity determination services which are provided under the plan for AFDC families. The State must charge non-AFDC families an application fee of up to $25. The amount of the maximum allowable fee may be adjusted periodically by the Secretary of the Department of Health and Human Services to reflect changes in administrative costs. States may charge the fee against the custodial parent, pay the fee out of State funds, or recover it from the noncustodial parent.

States also have the option of charging a late payment fee equal to between 3 and 6 percent of the amount of overdue support. Late payment fees may be charged to the noncustodial parents of AFDC and non-AFDC families and are to be collected only after the full amount of the support has been paid to the child. In addition, a State may at its option recover costs in excess of the application fee. Such recovery may be from either the custodial parent or the absent parent. If a State chooses to make recovery from the custodial parent, it must have in effect a procedure whereby all persons in the State who have authority to order support are informed that such costs are to be collected from the custodial parent.

Finally, child support enforcement services must include the enforcement of spousal support, but only if a support obligation has been established with respect to the spouse, the child and spouse are living in the same household, and child support is being collected along with spousal support.

The Federal Role

The Federal statute provides that the child support program must be administered by a separate organizational unit under the control of a person designated by and reporting directly to the Secretary of Health and Human Services. Under the present organizational structure of the Department, this office is known as the Federal Office of Child Support Enforcement (OCSE).

A primary responsibility of the director is to establish such standards for State programs for locating absent parents, establishing paternity, and obtaining child support and support for the spouse (or former spouse) with whom the absent parent's child is living as he determines to be necessary to assure that the programs will be effective. In addition to this broad statutory mandate, the director is required to establish minimum organizational and staffing requirements for State child support agencies, and to review and approve State plans.

The statute also requires the director of the OCSE to provide technical assistance to the States to help them establish effective systems for collecting child and spousal support and establishing paternity. To fulfill this requirement, the OCSE has established a National Child Support Enforcement Reference Center as a central location for the collection and dissemination of information about State and local programs. It has created a National Institute for Child Support Enforcement to provide training and technical as-

sistance to persons working in the field of child support enforcement. Special initiatives, such as a recent effort to assist major urban areas in improving program performance, have also been undertaken by the OCSE.

The Child Support Enforcement Amendments of 1984 (Public Law 98–378) extend the research and demonstration authority in section 1115 of the Social Security Act to the child support enforcement program. This will make it possible for States to test innovative approaches to support enforcement so long as the modification would not disadvantage children in need of support nor result in an increase in Federal AFDC costs. Public Law 98–378 also authorizes special project grants to promote improvement in interstate enforcement. The authorization is $7 million in fiscal year 1985, $12 million in fiscal year 1986, and $15 million in fiscal year 1987 and thereafter.

The director of the OCSE has full responsibility for program evaluation. Prior to fiscal year 1984 the statute required him to conduct an annual audit of each State's program to determine whether the actual operation of the program conformed to Federal requirements. The penalty for noncompliance was a reduction of 5 percent in the Federal matching that would otherwise be payable to the State under the Aid to Families With Dependent Children (AFDC) program. This penalty was never imposed; legislation was periodically enacted to suspend its implementation.

Public Law 98–378 modified these audit and penalty requirements. Audits are now required at least every 3 years to determine whether the standards and requirements prescribed by law and regulations have been met. Under the penalty provision, a State's AFDC matching funds must be reduced by an amount equal to at least 1 but no more than 2 percent for the first failure to comply substantially with the standards and requirements, at least 2 but no more than 3 percent for the second failure, and at least 3 but no more than 5 percent for the third and subsequent failures.

Federal Enforcement Tools

The statute creates several Federal mechanisms to assist the States in performing their paternity and child support enforcement functions. These include use of the Internal Revenue Service, the Federal courts, and the Federal Parent Locator Service (FPLS).

The statute requires the Secretary of HHS, upon the request of a State, to certify to the Secretary of Treasury for collection by the IRS any amounts identified by the State as representing delinquent child support payments. The Secretary may certify only the amounts delinquent under a court or administrative order, and only upon a showing by the State that it has made diligent and reasonable efforts to collect amounts due using its own collection mechanisms. States must reimburse the Federal Government for any costs involved in making the collections. Collections may be made on behalf of both AFDC and non-AFDC families. Use by the States of this regular IRS collection mechanism (which may include seizure by the IRS of property, freezing of accounts, and other procedures) has been relatively infrequent. In fiscal year

1986, collections were made in only 886 cases nationwide, for a total collection of $489,018.

The availability of the IRS collection mechanism for child support was amplified in amendments enacted as part of the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) to allow, in addition, the collection of past support from Federal tax refunds upon a simple showing by the State agency that an individual owes past-due support which has been assigned to the State as a condition of AFDC eligibility. Upon receiving this showing, the Secretary of Treasury is required to withhold from any tax refunds due that individual an amount equal to any past-due support. The withheld amount is sent to the State agency, together with notice of the taxpayer's current address. In fiscal year 1986, a total of 590,867 cases were offset, resulting in child support collections of $308 million.

Public Law 98-378 created a similar IRS offset program for non-AFDC families owed child support. States must submit to the IRS for withholding, the names of absent parents who have arrearages of at least $500 and who, on the basis of current payment patterns and the enforcement efforts that have been made, are unlikely to pay the arrearage before the IRS offset can occur. The law establishes specific notice requirements and mandates that the absent parent and any spouse be informed of the procedures which may be taken to protect the unobligated spouse's portion of the refund. The provision applies to refunds payable after December 31, 1985, and before January 1, 1991.

States also may have access to the Federal courts to enforce court orders for support. The director of the Office of Child Support Enforcement must approve a State's application for permission to use the courts of the United States to enforce court orders for support upon a finding that: (1) another State has not undertaken to enforce the court order of the originating State against an absent parent within a reasonable time; and (2) that use of the Federal courts is the only reasonable method of enforcing such order. This mechanism, designed to assist the States in enforcing interstate cases, has gone unused, apparently because the States view it as costly and complex.

Finally, the statute also requires the establishment of a Federal Parent Locator Service to be used to find absent parents in order to enforce child support obligations. Upon request, the Secretary of HHS must provide to an authorized person the most recent address and place of employment of any absent parent if the information is contained in the records of the Department of Health and Human Services, or can be obtained from any other department or agency of the United States or of any State. The Secretary must also make available the services of the PLS to any State that wishes to locate an absent parent or child for the purpose of enforcing any Federal or State law with respect to the unlawful taking or restraint of a child, or making or enforcing a child custody determination.

The State Role

Each State is required to designate a single and separate organizational unit of State government to administer the program. Ear-

lier child support legislation, enacted in 1967, had required that the program be administered by the welfare agency. The 1975 act deleted this requirement in order to give each State the opportunity to select the most effective administrative mechanism. Most States have placed the child support agency within the social or human services umbrella agency which also administers the AFDC program. However, two States have placed the agency in the department of revenue. The law allows the programs to be administered either on the State or local level. Ten programs are locally administered. A few programs are State administered in some counties and locally administered in others.

States must have plans, approved by the director of the OCSE, which set forth their functions and responsibilities. Both AFDC and non-AFDC families must be served. States must also enter into cooperative arrangements with appropriate courts and law enforcement officials to assist the child support agency in administering the program. These agreements may include provision for reimbursing courts and law enforcement officials for their assistance. States must operate a parent locator service to locate absent parents, and they must maintain full records of collections and disbursements, and otherwise maintain an adequate reporting system.

In order to facilitate the collection of support in interstate cases, a State must cooperate with other States in establishing paternity, locating absent parents, and in securing compliance with an order issued by another State.

The law requires the States to use several enforcement tools. They must use the IRS tax refund offset procedure for AFDC and non-AFDC families, and they must also determine periodically whether any individuals receiving unemployment compensation owe child support obligations. The State employment security agency is required to withhold unemployment benefits, and to pay the child support agency any outstanding child support obligations established by an agreement with the individual or through legal processes.

Public Law 98-378 mandated that States use a number of other enforcement techniques, beginning on October 1, 1985. These include: (1) mandatory wage withholding if support payments are delinquent in an amount equal to one month's support; (2) imposing liens against real and personal property for amounts of overdue support; (3) withholding of State tax refunds payable to a parent who is delinquent in support payments; (4) making available information regarding the amount of overdue support owed to a consumer credit bureau upon a request; (5) requiring individuals who have demonstrated a pattern of delinquent payments to post a bond or give some other guarantee to secure payment of overdue support; (6) establishing expedited processes within the State judicial system or under administrative processes for obtaining and enforcing child support orders, and, at the option of the State, determining paternity; (7) notifying each AFDC recipient at least once each year of the amount of child support collected on behalf of that recipient; (8) permitting the establishment of paternity until a child's 18th birthday; and (9) at the option of the State, providing that child support payments must be made through the agency that administers the State's income withholding system if either

the custodial or noncustodial parent requests that they be made in this manner.

State child support agencies are required to undertake child support collections on behalf of children receiving foster care maintenance payments under title IV-E of the Social Security Act, if an assignment of rights to support has been secured by the foster care agency. In addition, foster care agencies are required to take steps, where appropriate, to secure an assignment to the State of any rights to support on behalf of a child receiving foster care maintenance payments.

State agencies are also required, as a result of Public Law 98-378 and regulations issued by the Department of Health and Human Services, to petition to include medical support as part of any child support order whenever health care coverage is available to the noncustodial parent at a reasonable cost. And, if a family loses AFDC eligibility as the result of increased collection of support payments, the State must continue to provide Medicaid benefits for 4 calendar months beginning with the month of ineligibility.

Finally, the statute requires each State to comply with any other requirements and standards that the Secretary determines to be necessary to the establishment of an effective child support program.

Federal Garnishment and Military Allotment Provisions

Title IV-D of the Social Security Act also includes a provision allowing garnishment of wages and other payments made by the Federal Government for enforcement of child support and alimony obligations. The statute provides that moneys (the entitlement to which is based upon remuneration for employment) payable by the United States to any individual are subject to legal process brought for the enforcement against such individual of his legal obligation to provide child support or make alimony payments. The law sets forth in detail the procedures which must be followed for service of legal process, and specifies that the term "based upon remuneration for employment" includes wages, periodic benefits for the payment of pensions, retirement or retired pay (including social security and other retirement benefits), and other kinds of Federal payments. The following Federal income sources may not be garnished: any payment as compensation for death under any Federal program; Federal "black lung" benefits; Veterans' Administration pensions or payments as compensation for a service-related disability or death; and amounts paid to defray employment-related expenses.

As amended by Public Law 97-248, the law presently requires allotments from the pay and allowances of any member of the uniformed service (on active duty) when he fails to make child (or child and spousal) support payments. The requirement arises when the service member fails to make support payments in an amount at least equal to the value of 2 months' worth of support. Provisions of the Consumer Credit Protection Act apply so that the percentage of the member's pay which is subject to allotment is limited. The amount of the allotment is the amount of the support pay-

ment, as established under a legally enforceable administrative or judicial order.

Financing

Through fiscal year 1987, the Federal Government will pay 70 percent of State and local administrative costs for services to both AFDC and non-AFDC families on an open-end entitlement basis. The matching rate was reduced from 75 to 70 percent by a provision in Public Law 97–248 and, under the terms of Public Law 98–378, will decline to 68 percent in fiscal years 1988 and 1989, and 66 percent in fiscal year 1990 and each year thereafter. Funding for services to non-AFDC families was originally enacted on a temporary basis, but was made permanent in Public Law 96–272.

In addition, 90 percent Federal matching is available on an open-end entitlement basis to States that elect to establish an automatic data processing and information retrieval system. The Secretary must approve the system as meeting specified criteria before matching may be paid to the State. The matching rate was increased from 75 to 90 percent in Public Law 96–265. Public Law 98–378 permits States to use this 90 percent Federal match to establish an automated data processing and information retrieval system and, at the option of the State, for the development and improvement of the income withholding and other procedures required by the new law. These matching funds may also be used to pay for the acquisition of computer hardware.

Effective March 1, 1986, the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99–177) reduced the fiscal year 1986 administrative match from 70 percent to 66.65 percent and the computer match from 90 percent to 85.69 percent. These reductions applied to fiscal year 1986 only, and returned to the statutorily set rates on October 1, 1986.

Collections made on behalf of AFDC families are used to offset the cost to the Federal and State governments of welfare payments made to the family, except that AFDC families retain the first $50 of child support collected in a month. (Table 1 shows the number of families affected by this provision.) The amounts retained by the government are distributed between the Federal and State governments according to the proportional matching share which each has under a State's AFDC program.

TABLE 1.—ESTIMATED TOTAL NUMBER AND PERCENT OF AFDC FAMILIES AFFECTED BY $50 PASSTHROUGH: 1985 and 1986 [1]

State	Number of AFDC families 1986	Estimated number of families affected 1986	Percent of families affected	
			1985	1986
Alabama	48,212	8,665	11.7	18.0
Alaska	6,916	793	11.9	11.5
Arizona	28,005	1,255	4.8	4.5
Arkansas	22,647	3,924	15.9	17.3

TABLE 1.—ESTIMATED TOTAL NUMBER AND PERCENT OF AFDC FAMILIES AFFECTED BY $50 PASSTHROUGH: 1985 and 1986 [1]—Continued

State	Number of AFDC families 1986	Estimated number of families affected 1986	Percent of families affected	
			1985	1986
California	499,897	54,851	13.8	11.0
Colorado	30,574	4,323	14.1	14.1
Connecticut	38,742	10,675	25.6	27.6
Delaware	7,973	2,009	21.7	25.2
District of Columbia	20,324	1,378	5.8	1.8
Florida	98,529	14,832	11.4	15.1
Georgia	85,763	8,885	5.3	10.4
Hawaii	13,752	1,465	20.5	10.7
Idaho	6,160	2,015	46.7	32.7
Illinois	225,484	24,365	5.5	10.8
Indiana	53,608	7,681	25.9	14.3
Iowa	35,336	7,632	22.7	21.6
Kansas	22,387	3,872	15.2	17.3
Kentucky	59,618	4,807	7.6	8.1
Louisiana	82,265	5,990	6.9	7.3
Maine	17,897	4,806	25.6	26.9
Maryland	66,382	12,937	15.0	19.5
Massachusetts	86,476	17,275	20.2	20.0
Michigan	186,140	47,077	17.2	25.3
Minnesota	46,311	12,501	22.5	27.0
Mississippi	55,079	2,697	4.8	4.9
Missouri	62,072	6,077	8.2	9.8
Montana	8,082	1,244	13.9	15.4
Nebraska	14,698	2,253	11.3	15.3
Nevada	5,613	2,045	33.6	36.4
New Hampshire	4,667	827	12.6	17.7
New Jersey	115,544	17,737	15.4	15.4
New Mexico	18,123	2,102	7.6	11.6
New York	349,992	33,267	9.2	9.5
North Carolina	66,561	28,821	15.0	43.3
North Dakota	4,887	1,247	25.1	25.5
Ohio	193,577	27,863	11.6	14.4
Oklahoma	30,579	3,034	8.4	9.9
Oregon	28,759	5,563	16.0	19.3
Pennsylvania	178,942	35,409	16.3	19.8
Rhode Island	15,772	2,215	13.9	14.0
South Carolina	45,511	4,005	8.9	8.8

TABLE 1.—ESTIMATED TOTAL NUMBER AND PERCENT OF AFDC FAMILIES AFFECTED BY $50 PASSTHROUGH: 1985 and 1986 [1]—Continued

State	Number of AFDC families 1986	Estimated number of families affected 1986	Percent of families affected	
			1985	1986
South Dakota	6,400	2,163	17.6	33.8
Tennessee	60,227	6,056	9.8	10.0
Texas	143,686	6,517	3.1	4.5
Utah	13,939	3,595	26.9	25.8
Vermont	7,041	1,856	21.9	26.4
Virginia	57,021	9,695	14.9	17.0
Washington	66,075	16,728	18.0	25.3
West Virginia	26,964	2,084	6.6	7.7
Wisconsin	82,234	19,151	37.8	23.3
Wyoming	4,087	457	8.0	11.1
Guam	1,362	164	10.5	12.0
Puerto Rico	54,449	2,229	4.7	4.0
Virgin Islands	NA	NA	10.2	NA
Total	3,512,546	511,282	13.2	14.6

NA = Not available.

[1] These estimates are based on the number of "paying" child support cases and are a low estimate of the number of families affected.

Note: These estimates are based on the number of "paying" child support cases adjusted for comparability with AFDC families.

Source: Office of Child Support Enforcement.

Finally, the statute includes an incentive system designed to encourage State and local governments to participate in the program. As a result of Public Law 98-378, the prior incentive formula, which gave States 12 percent of their AFDC collections (paid for out of the Federal share of collections), has been replaced, beginning on October 1, 1985, with a new formula that is designed to encourage States to develop programs that emphasize collections on behalf of both AFDC and non-AFDC families, and to improve program cost effectiveness. The basic incentive payment will be equal to 6 percent of the State's AFDC collections and 6 percent of its non-AFDC collections. States may qualify for higher incentive payments, up to a maximum of 10 percent of collections, if their AFDC or non-AFDC collections exceed total administrative costs for the program.

The total dollar amount of incentives paid for non-AFDC families may not exceed the amount of the State's incentive payment for AFDC collections for fiscal years 1986 and 1987. However, thereafter the incentive paid for non-AFDC collections will be capped at an amount equal to 105 percent of the incentive for AFDC collections in fiscal year 1988, 110 percent in fiscal year 1989, and 115 percent in fiscal year 1990 and thereafter. The statute also estab-

lishes a hold harmless provision for fiscal years 1986 and 1987. Under this provision, a State is eligible to receive the higher of the amount due it under the new incentive and match provisions or 80 percent of what it would have received under the existing 12 percent incentive formula and 70 percent match.

Demographic Trends [1]

A sizable and growing proportion of American households are families that consist only of a mother and her children. Since 1970, the number of female-headed families has doubled; the number of two-parent families has declined slightly. As a result, by 1984 one out of every five children in the United States lived in a family where the mother was never married or the father was absent because of death, divorce, or separation. An unprecedented number of children live in single-parent homes, many without adequate or any support from the other parent.

In 1984, nearly 46 percent of families with children under 18 maintained solely by the mother had incomes below the poverty threshold. Further, 22 percent of these families with a female householder (with no husband present) were poor despite full-time work of the mother.

In 1984, 14 million children lived with only one parent, 71 percent more than in 1970. Even though the total number of children under 18 years old in the United States declined from 69 million in 1970 to 62 million in 1984, the number of children affected by divorce, separation, and unmarried status of mother continued to rise. Almost 23 percent of all children lived in a one-parent family in 1984, compared with 12 percent in 1970. The 1981 National Survey of Children indicates that roughly 10 percent of the children living with two parents were living with a stepparent.

Of the 14 million children living with one parent, 90 percent lived with their mothers and 10 percent with their fathers. Between 1970 and 1984 the number of children living with only their fathers grew by 84 percent (from 748,000 to 1,378,000). The proportion of all children in one-parent families who lived with their fathers rose from 1.1 percent to 2.2 percent.

The largest number of children in one-parent families had a parent who was divorced, followed by children whose parents were separated or never married. In 1984, of the children who lived only with one parent, 42 percent had a parent who was divorced, 23 percent had a parent who was separated, and 24 percent had a parent who had never been married. The number of children with a divorced parent has more than doubled since 1970, but the number with a never-married parent grew by a multiple of 6.

Child support awards

In 1983, of the 8.7 million women who had children present under the age of 21 from an absent father, 42 percent never were awarded child support rights (nor had an agreement to receive child support payments) and, thus, were dependent for income on

[1] This section draws heavily on the Congressional Research Service report titled "Statistical Program Data on Single-Parent Families with Children," July 11, 1986.

sources other than the father. For poor mothers, the proportion without child support awards was even higher, 58 percent (see table 3).

TABLE 2.—CHILD SUPPORT AND ALIMONY PAYMENTS IN 1983, 1981, AND 1978

[Women as of spring 1984, 1982 and 1979. Child support payments for women with own children under 21 years of age present from an absent father: alimony payment for ever-divorced women]

Year, award and recipiency status of women	1983		1981		1978	
	Number (thousands)	Percent distribution	Number (thousands)	Percent distribution	Number (thousands)	Percent distribution
Child Support Payments						
Total	8,690	100.0	8,387	100.0	7,094	100.0
Awarded [1]	5,015	57.7	4,969	59.2	4,196	59.1
Supposed to receive payments	3,995	46.0	4,043	48.2	3,424	48.3
Not supposed to receive payments	1,020	11.7	926	11.0	772	10.9
Not awarded [1]	3,675	42.3	3,417	40.7	2,898	40.9
Supposed to receive payments	3,995	100.0	4,043	100.0	3,424	100.0
Actually received payments	3,037	76.0	2,902	71.8	2,455	71.6
Received full amount	2,018	50.5	1,888	46.7	1,675	48.9
Received partial amount	1,019	25.5	1,014	25.1	779	22.7
Did not receive payments	958	24.0	1,140	28.2	969	28.4
Alimony						
Total	17,122	100.0	16,996	100.0	14,334	100.0
Awarded [1]	2,382	13.9	2,534	14.9	2,052	14.3
Supposed to receive payments	791	4.6	782	4.6	760	5.3
Not supposed to receive payments	1,591	9.3	1,752	10.3	1,292	9.0
Not awarded [1]	14,741	86.1	14,462	85.1	12,282	85.7
Supposed to receive payments	791	100.0	782	100.0	760	100.0
Actually received payments	608	76.9	527	67.4	528	69.5
Received full amount	NA	NA	340	43.5	312	41.1
Received partial amount	NA	NA	187	23.9	216	28.4
Did not receive payments	183	23.1	255	32.6	232	30.5

[1] Award status as of spring 1984, 1982, and 1979.

Source: U.S. Bureau of the Census. Current Population Reports, Series P–23, No. 124. Child Support and Alimony: 1981 (advance report) and No. 141 Child Support and Alimony 1983 (advance report). Washington, U.S. Government Printing Office, 1983.

More than 5 million women with children under age 21 (58 percent) had been awarded child support or had an agreement to receive child support payments, but only 4 million (46 percent) of the women were actually "supposed to receive" child support in 1983. The rights of the remaining 12 percent were no longer in force because the father who owed payments had died, the children had grown past the age of eligibility for payments, or because of another such reason.

Many of the women who were awarded child support payments did not receive the full amount they were due. In 1983, only one-half (50 percent) of the 4 million women owed child support payments received the full amount, about 26 percent of the women received less than they were owed, and 24 percent received no payment at all. The average amount of child support for women who *received* payments in 1983 was $2,341, about 18 percent of their average total income. In 1978, the average amount of child support was $1,800, about 20 percent of the woman's income.

In 1983, the average amount of child support for the 4 million women *due* payments, including those who received nothing, was $1,780. If the full amount of payment due had been made to these women, the average child support amount would have been $2,520. In 1983, $10.1 billion in child support payments was due, but actual payments totaled only $7.1 billion.

TABLE 3.—CHILD SUPPORT PAYMENTS AWARDED AND RECEIVED IN 1983—WOMEN WITH CHILDREN PRESENT, BY SELECTED CHARACTERISTICS

[Women with own children under 21 years of age present from an absent father as of spring 1984]

Characteristics of women	Total (thousands)	Percent awarded child support payments [1]	Supposed to receive child support in 1983			
			Total (thousands)	Actually received child support in 1983		
				Percent	Mean child support	Mean total money income
ALL WOMEN						
Total	8,690	57.7	3,995	76.0	$2,341	$13,132
Current Marital Stauts						
Married [2]	2,129	75.8	1,226	71.9	2,164	11,602
Divorced	3,204	76.2	2,092	76.4	2,491	14,986
Separated	1,451	40.9	434	87.1	2,682	11,207
Widowed [3]	53	(B)	24	(B)	(B)	(B)
Never married	1,854	17.7	219	75.8	1,132	7,257
Race and Spanish Origin						
White	6,183	66.9	3,389	77.1	2,475	13,534
Black	2,341	33.7	534	69.3	1,465	10,188
Spanish origin [4]	790	40.9	252	62.7	1,839	10,067
Years of School Completed						
Less than 12 years	2,247	42.4	707	66.1	1,535	7,637
High school: 4 years	4,201	61.2	2,056	76.5	2,159	12,351
College:						
1 to 3 years	1,508	64.1	784	79.2	2,332	14,169
4 years or more	734	71.3	447	84.1	4,118	21,520

TABLE 3.—CHILD SUPPORT PAYMENTS AWARDED AND RECEIVED IN 1983—WOMEN WITH CHILDREN PRESENT, BY SELECTED CHARACTERISTICS—Continued

[Women with own children under 21 years of age present from an absent father as of spring 1984]

Characteristics of women	Total (thousands)	Percent awarded child support payments [1]	Supposed to receive child support in 1983			
			Total (thousands)	Actually received child support in 1983		
				Percent	Mean child support	Mean total money income
WOMEN WITH INCOMES BELOW POVERTY						
Total	2,898	42.5	916	19.6	1,425	4,793
Current Marital Status						
Married [2]	187	64.2	89	24.1	NA	NA
Divorced	925	68.3	515	31.0	1,548	5,348
Separated	726	40.9	189	21.8	1,502	4,569
Widowed	13	38.5	4	15.4	NA	NA
Never Married [3]	1,048	16.9	119	7.3	926	3,722
Race						
White	1,577	52.5	653	25.6	1,528	4,794
Black	1,256	30.0	243	12.2	1,158	4,710
Spanish origin [4]	394	29.4	76	13.5	NA	NA

[1] Award status as of spring 1984.
[2] Remarried women whose previous marriage ended in divorce.
[3] Widowed women those previous marriage ended in divorce.
[4] Persons of Spanish origin may be of any race.

Note.—B base less than 75,000.

Source: U.S. Bureau of the Census. Current Population Reports, Series P–23, No. 141. Child Support and Alimony: 1983 (Advance Report). U.S. Government Printing Office, Washington, 1983.

Of the 8.7 million women with children by an absent father, about 2.9 million (33 percent) had incomes below the poverty level. Of these women, only 32 percent (916,000) had agreements to receive child support and were due payments in 1983. Another 11 percent had agreements but were not due payments in 1983 (see table 3).

Of the poor mothers who were supposed to receive child support payments in 1983, 62 percent (568,000) actually received payments, while 38 percent did not.

For women who actually received child support payments in 1983, the amount of payment tended to be higher than average for divorced, remarried, and separated women, white women, women over age 30, and women who had gone to college for 4 or more years. Those with lower than average payment amounts included never-married women, black women, women of Spanish origin, and women who had not completed 12 years of school (see table 3).

Only 18 percent of women who had never married were awarded child support payments; compared with 76 percent of divorced women, 76 percent of remarried women and 41 percent of women who were separated. Among women with awards, the percentages of those who actually received payments were: 51 percent of never-married mothers, 54 percent of remarried mothers, 64 percent of separated mothers, and 65 percent of divorced mothers.

Of the 3 million women who actually received child support payments in 1983, 53 percent were divorced, 29 percent were remarried, 12 percent were separated, 5 percent were single (never married), and fewer than 0.5 percent were widowed. The women who had never married received, on the average, the lowest amount of child support payments. Among women who were poor despite having been awarded child support, these percentages were lower. Payments actually were received by 44 percent of such never-married mothers, 38 percent of remarried mothers, 53 percent of separated mothers, and 45 percent of divorced mothers.

Black mothers and mothers of Spanish origin living apart from the father of their children were much less likely than their white counterparts to be awarded child support. Almost 67 percent of white mothers were awarded child support payments, compared with 34 percent of black mothers, and 41 percent of mothers of Spanish origin. Further, both black and Spanish-origin mothers received smaller payments, on the average, than did white mothers.

Mothers who were not high school graduates were less likely than the average to be awarded child support, and their support payments were on the average much smaller than those of mothers who had completed more than 12 years of school.

In addition, the age of the woman was related to the awarding of child support payments. Women between the ages of 30 and 39 were the most likely to be awarded child support and the most likely to actually receive payments. However, women 40 years of age and older received, on average, higher support payments. Women under age 30 were the least likely to be awarded payments, and those who were awarded support received smaller payments, on average, than older women.

Another factor related to child support was the number of children the mother had with her in the absence of their father. Women with two children were the most likely to receive support.

Program Trends

The Child Support Enforcement program has grown significantly since its implementation in August 1975. From fiscal year 1979 through fiscal year 1986, more than $15.0 billion in child support payments have been collected: $6.2 billion on behalf of families receiving AFDC, and $8.8 billion on behalf of non-AFDC families.

In fiscal year 1986 collections on behalf of AFDC families exceeded $1.2 billion; collections on behalf of non-AFDC families totaled $1.994 billion. Total administrative expenditures were about $913 million, resulting in $3.53 collected per dollar of total administrative expenses. In fiscal year 1986, the number of parents located totaled 945,000, and the number of paternities established reached 244,000. The number of AFDC and non-AFDC cases in which a col-

lection was made also continued to grow, as did the dollar amount of collections. Tables 4–21 present data showing the development of the child support program in recent years. In all of these tables, the 1986 data are preliminary.

TABLE 4.—PROGRAM OPERATIONS, SUMMARY OF NATIONAL STATISTICS, FISCAL YEARS 1978–1986

[Numbers in thousands, dollars in millions]

	1978	1979	1980	1981	1982	1983	1984	1985	1986
Total child support collections	$1,047	$1,333	$1,478	$1,630	$1,770	$2,024	$2,378	$2,696	$3,252
Total AFDC collections	$472	$597	$603	$671	$786	$880	$1,000	$1,092	$1,227
Total non-AFDC collections	$575	$736	$874	$958	$984	$1,144	$1,378	$1,604	$2,024
Total administrative expenditures	$312	$383	$466	$526	$612	$691	$723	$814	$939
Federal incentive payments to States and localities	$54	$66	$72	$90	$107	$121	$134	$131	$160
Average number of AFDC cases in which a collection was made	458	463	503	548	597	595	647	684	609
Average number of non-AFDC cases in which a collection was made	249	224	243	325	448	507	547	654	764
Number of families removed from AFDC due to child support collections	19	27	40	46	32	26	41	34	[2]248
Number of parents located	454	574	643	696	779	831	875	878	945
Number of paternities established	111	138	144	164	173	208	219	232	245
Number of support obligations established	315	349	374	414	462	496	573	669	723
Percent of AFDC assistance payments recovered through child support collections	([1])	5.6	5.2	5.2	6.8	6.6	7.0	7.3	NA
Total child support collections per dollar of total administrative expenses	$3.35	$3.48	$3.17	$3.09	$2.89	$2.93	$3.29	$3.31	$3.46

[1] Not available.
[2] Definition changed to all cases closed where a child support payment was received.

Source: Office of Child Support Enforcement.

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TABLE 5.—STATE PROFILE OF COLLECTIONS AND EXPENDITURES, FISCAL YEAR 1986 [1]

[In millions of dollars]

State	Total collections	AFDC collections	Non-AFDC collections	Total expenditures
U.S. total	3,251.8	1,227.4	2,024.3	939.0
Alabama	32.5	14.5	18.0	13.3
Alaska	12.8	2.8	10.0	4.4
Arizona	13.7	2.7	11.0	10.2
Arkansas	14.9	8.1	6.8	5.7
California	337.9	172.4	165.5	141.9
Colorado	19.1	11.1	7.9	10.1
Connecticut	54.5	26.1	28.4	15.6
Delaware	12.2	4.0	8.2	5.0
District of Columbia	5.2	2.8	2.4	5.6
Florida	63.1	28.2	34.9	9.8
Georgia	34.3	20.5	13.8	13.6
Guam	.5	.3	.2	.4
Hawaii	11.8	5.1	6.7	5.2
Idaho	11.0	4.8	6.2	3.1
Illinois	72.6	32.4	40.2	30.3
Indiana	47.0	29.7	17.3	9.8
Iowa	40.5	26.0	14.5	6.0
Kansas	16.4	10.3	6.1	7.7
Kentucky	27.9	11.2	16.7	11.1
Louisiana	39.9	14.4	25.5	18.0
Maine	17.7	12.3	4.9	4.5
Maryland	95.7	31.5	64.2	25.4
Massachusetts	109.3	50.4	58.4	31.3
Michigan	424.6	125.4	299.2	51.0
Minnesota	68.9	33.9	35.0	22.8
Mississippi	11.8	5.9	5.9	5.2
Missouri	55.0	18.7	36.3	14.1
Montana	4.6	3.4	1.2	1.8
Nebraska	34.2	5.8	26.4	6.3
Nevada	9.0	2.9	6.1	4.3
New Hampshire	14.2	2.3	11.9	3.2
New Jersey	229.6	57.8	171.8	49.5
New Mexico	8.0	4.8	3.1	3.5
New York	221.9	82.5	139.4	121.4
North Carolina	55.4	27.8	27.6	17.0
North Dakota	4.7	3.1	1.6	1.9
Ohio	124.7	59.2	65.5	25.3
Oklahoma	13.0	7.2	5.8	7.3
Oregon	49.2	15.3	33.9	11.0
Pennsylvania	414.8	74.5	340.3	53.3
Puerto Rico	58.9	1.8	57.0	4.2
Rhode Island	10.5	5.9	4.6	2.7
South Carolina	21.8	10.6	11.2	9.2
South Dakota	4.5	2.7	1.8	1.6
Tennessee	31.8	4.8	22.0	9.5
Texas	43.2	17.6	25.6	21.5
Utah	22.3	12.1	10.2	10.1
Vermont	4.6	3.6	1.0	2.0
Virgin Islands	2.0	.2	1.8	1.0
Virginia	24.6	13.7	10.9	15.7
Washington	64.2	36.4	27.8	25.3
West Virginia	5.7	5.3	.4	2.9
Wisconsin	121.2	53.6	67.6	25.4
Wyoming	2.1	1.3	.8	.8

[1] Totals may not add due to rounding.

Source: Office of Child Support Enforcement.

TABLE 6.—TOTAL CHILD SUPPORT COLLECTIONS, FISCAL YEARS 1979–1986

[In thousands of dollars]

State	1979	1981	1982	1983	1984	1985	1986
Alabama	6,854	5,021	8,060	8,643	11,978	25,532	32,499
Alaska	3,844	5,932	7,388	9,704	10,307	10,794	12,834
Arizona	6,411	8,755	10,421	10,563	14,247	12,874	13,730
Arkansas	3,921	4,856	5,553	7,401	7,809	9,988	14,864
California	199,945	201,426	247,023	254,586	285,804	305,096	337,871
Colorado	4,020	12,302	16,938	17,178	15,129	18,324	19,055
Connecticut	23,033	29,602	37,078	39,227	43,160	48,210	54,478
Delaware	5,814	6,945	7,383	8,097	9,758	10,698	12,232
District of Columbia	1,086	1,909	2,575	3,521	3,993	4,692	5,184
Florida	10,524	16,932	20,274	19,080	42,753	45,751	63,136
Georgia	5,554	8,304	9,500	13,439	18,586	26,281	34,275
Guam	160	149	260	391	485	433	487
Hawaii	5,150	7,547	8,224	10,087	10,272	11,642	11,790
Idaho	2,501	3,277	4,448	4,690	4,726	5,815	10,954
Illinois	10,740	13,943	21,599	32,025	42,876	54,530	72,647
Indiana	9,073	12,339	14,589	20,789	26,048	33,683	47,012
Iowa	13,017	21,522	26,809	29,185	33,140	34,350	40,558
Kansas	3,975	6,908	9,601	9,921	10,888	11,430	16,416
Kentucky	4,881	14,732	14,647	19,702	22,365	25,145	27,957
Louisiana	12,678	17,833	22,320	26,754	27,407	34,259	39,932
Maine	4,574	5,677	7,465	10,235	12,052	14,121	17,731
Maryland	20,856	35,193	54,705	77,129	76,637	83,807	95,737
Massachusetts	36,338	52,955	63,612	72,319	84,059	98,339	109,312
Michigan	248,414	305,396	240,438	273,799	305,421	341,178	424,647
Minnesota	21,370	29,988	37,834	44,893	52,152	58,850	68,889
Mississippi	1,662	2,510	2,691	4,887	5,300	6,895	11,798
Missouri	5,829	12,364	18,586	18,118	24,818	34,520	54,998
Montana	1,213	1,698	1,750	2,415	2,894	3,906	4,631
Nebraska	2,468	10,832	17,124	20,044	24,212	29,906	34,206
Nevada	3,487	4,011	4,712	5,556	6,441	7,280	8,976
New Hampshire	2,089	2,336	4,620	11,621	11,884	12,771	14,203
New Jersey	94,005	104,853	131,603	143,225	183,372	200,155	229,570
New Mexico	1,680	2,748	3,471	4,614	5,523	6,292	7,979
New York	136,361	141,670	151,803	174,454	182,541	199,550	221,953
North Carolina	9,168	17,196	22,267	30,830	37,292	45,042	55,381
North Dakota	1,723	1,936	2,312	2,723	3,372	3,645	4,665
Ohio	22,832	31,467	30,954	34,862	41,570	82,700	124,745
Oklahoma	1,826	3,224	3,896	5,233	7,545	9,233	12,977
Oregon	88,502	105,670	46,685	38,052	37,401	39,778	49,151
Pennsylvania	186,718	222,548	255,481	285,829	327,663	371,163	414,862
Puerto Rico	1,916	2,459	17,383	31,985	85,211	54,265	58,791
Rhode Island	3,575	3,772	5,381	7,196	7,910	8,634	10,465
South Carolina	3,545	5,323	6,153	7,461	11,078	11,063	21,756
South Dakota	1,407	1,768	2,122	2,847	2,732	3,154	4,474
Tennessee	8,976	10,217	17,491	19,077	22,295	23,562	31,776
Texas	8,207	11,633	13,841	17,941	25,004	30,311	43,209
Utah	6,624	9,710	11,948	13,594	14,666	16,759	22,316
Vermont	1,449	2,199	3,257	2,828	2,879	3,683	4,636
Virginia	9,197	9,904	12,230	13,617	13,954	16,278	24,610
Virgin Islands	260	429	657	684	1,479	2,339	2,037
Washington	27,018	31,756	36,551	41,643	46,035	56,830	64,185
West Virginia	1,592	2,349	2,637	3,434	3,977	4,691	5,701
Wisconsin	34,267	42,195	43,152	56,041	65,434	82,071	121,260
Wyoming	520	781	877	1,017	1,253	1,231	2,082
Nationwide total	1,332,847	1,629,000	1,770,378	2,024,184	2,377,788	2,693,528	3,251,759

Source: Office of Child Support Enforcement.

TABLE 7.—TOTAL DISTRIBUTED AFDC COLLECTIONS, FISCAL YEARS 1979–1986

[In thousands of dollars]

State	1979	1981	1982	1983	1984	1985	1986
Alabama	6,830	5,021	8,060	7,789	8,778	14,863	14,454
Alaska	334	772	1,048	1,780	1,728	2,058	2,797
Arizona	642	1,221	1,250	1,459	2,165	1,636	2,725
Arkansas	2,428	2,684	3,032	4,593	5,183	6,318	8,083
California	117,532	100,437	136,394	136,963	151,998	154,024	172,413
Colorado	3,525	4,505	5,990	9,330	8,986	9,372	11,135
Connecticut	11,416	15,684	21,308	20,628	21,945	23,606	26,081
Delaware	1,386	2,001	1,958	2,276	3,501	3,847	3,987
District of Columbia	907	1,379	1,813	2,421	2,242	2,609	2,769
Florida	8,598	12,289	14,286	10,408	30,587	26,261	28,201
Georgia	4,772	7,441	8,107	11,355	14,816	19,268	20,456
Guam	159	117	165	259	296	281	273
Hawaii	2,544	3,127	3,345	4,482	4,489	5,162	5,137
Idaho	2,047	2,659	3,409	3,806	3,870	4,324	4,803
Illinois	9,916	12,347	17,015	18,971	24,415	27,936	32,391
Indiana	8,116	10,129	11,650	17,646	22,541	24,585	29,702
Iowa	10,654	15,218	18,114	19,978	22,518	23,858	26,015
Kansas	3,454	5,279	7,766	7,807	8,119	9,781	10,298
Kentucky	4,615	4,314	3,752	6,316	6,388	9,440	11,200
Louisiana	5,244	7,429	9,301	9,641	10,328	13,043	14,455
Maine	4,133	4,732	5,991	8,402	9,696	10,528	12,796
Maryland	10,929	15,912	15,193	27,773	24,202	28,197	31,529
Massachusetts	29,145	38,243	40,368	40,476	42,919	46,343	50,398
Michigan	76,375	87,304	101,339	97,694	106,771	111,925	125,425
Minnesota	14,510	20,290	23,125	25,708	28,600	30,805	33,920
Mississippi	1,556	2,284	2,396	4,544	4,901	4,807	5,928
Missouri	4,165	6,423	12,434	11,500	14,332	16,978	18,728
Montana	685	1,039	1,237	1,834	2,273	3,195	3,438
Nebraska	2,083	3,022	3,176	3,675	4,279	5,863	5,815
Nevada	517	879	1,510	1,824	1,759	1,731	2,859
New Hampshire	2,089	2,220	2,303	2,649	2,459	2,523	2,336
New Jersey	28,622	31,985	33,606	41,103	50,342	51,155	57,785
New Mexico	1,160	1,907	2,218	2,891	3,537	3,750	4,838
New York	56,588	47,790	54,632	68,622	68,705	79,148	82,512
North Carolina	7,714	11,774	12,795	18,795	20,878	23,531	27,803
North Dakota	1,379	1,542	1,763	2,011	2,353	2,660	3,117
Ohio	21,974	30,494	30,082	33,403	39,918	47,585	59,245
Oklahoma	1,260	2,254	2,607	3,648	5,603	6,559	7,218
Oregon	12,977	13,305	16,451	12,645	12,217	14,123	15,267
Pennsylvania	33,190	37,381	40,586	47,135	57,897	62,791	74,459
Puerto Rico	439	717	687	917	1,211	1,525	1,820
Rhode Island	3,438	3,624	3,869	4,217	4,967	5,126	5,900
South Carolina	3,065	4,437	4,712	6,015	8,745	7,720	10,549
South Dakota	1,137	1,225	1,432	2,175	2,111	2,305	2,678
Tennessee	3,871	3,519	5,901	5,567	6,467	5,868	9,757
Texas	6,370	8,308	6,869	10,879	13,246	15,959	17,619
Utah	5,442	8,133	10,065	11,643	11,591	11,441	12,139
Vermont	1,201	1,939	3,038	2,626	2,668	3,162	3,640
Virginia	9,081	8,737	10,398	11,758	12,027	13,930	13,686
Virgin Islands	143	150	179	140	159	211	212
Washington	18,319	19,244	22,083	26,495	29,173	32,021	36,372
West Virginia	1,430	2,201	2,488	3,311	3,868	4,544	5,344
Wisconsin	26,044	33,029	32,020	39,582	44,522	48,721	53,633
Wyoming	379	536	619	790	855	793	1,280
Nationwide total	596,532	670,637	785,931	879,862	1,000,147	1,089,798	1,227,442

Source: Office of Child Support Enforcement.

TABLE 8.—TOTAL NON-AFDC COLLECTIONS, FISCAL YEARS 1979–1986

[In thousands of dollars]

State	1979	1981	1982	1983	1984	1985	1986
Alabama	16	698	160	854	3,199	10,669	18,044
Alaska	3,510	5,159	6,340	7,924	8,579	8,736	10,034
Arizona	5,769	7,534	9,171	9,104	12,081	11,238	11,004
Arkansas	1,494	2,172	2,521	2,808	2,625	3,670	6,781
California	82,412	100,989	110,630	117,623	133,805	151,072	165,456
Colorado	496	7,797	10,948	7,848	6,143	8,952	7,919
Connecticut	11,617	13,918	15,770	18,599	21,215	24,604	28,396
Delaware	4,428	4,343	5,426	5,821	6,257	6,850	8,245
District of Columbia	179	530	761	1,100	1,751	2,083	2,415
Florida	1,926	4,643	5,988	8,672	12,165	19,490	34,934
Georgia	783	863	1,393	2,084	3,770	7,013	13,819
Guam	(1)	32	95	131	189	152	214
Hawaii	2,606	4,420	4,879	5,605	5,783	6,480	6,653
Idaho	454	617	1,039	884	857	1,490	6,150
Illinois	823	1,596	4,585	13,054	18,461	26,594	40,255
Indiana	957	2,210	2,939	3,142	3,508	9,098	17,309
Iowa	2,363	6,304	8,696	9,701	10,621	10,492	14,542
Kansas	520	1,629	1,835	2,114	2,769	1,648	6,117
Kentucky	266	10,418	10,895	13,387	15,977	15,704	16,756
Louisiana	7,434	10,404	13,018	16,113	17,080	21,216	25,476
Maine	441	945	1,474	1,833	2,356	3,593	4,934
Maryland	9,927	19,281	39,513	49,356	52,435	55,609	64,207
Massachusetts	7,193	14,712	23,244	31,844	41,140	51,996	58,913
Michigan	172,039	218,092	139,099	176,105	198,650	229,254	299,220
Minnesota	6,861	9,698	14,709	19,184	23,551	28,045	34,968
Mississippi	106	226	295	343	399	2,088	5,869
Missouri	1,664	5,941	6,152	6,618	10,486	17,542	36,269
Montana	528	659	513	582	621	711	1,193
Nebraska	385	7,810	13,949	16,369	19,934	24,043	28,389
Nevada	2,970	3,132	3,202	3,731	4,682	5,549	6,117
New Hampshire	0	116	2,318	8,972	9,425	10,248	11,867
New Jersey	65,383	72,868	97,997	102,122	133,030	149,000	171,784
New Mexico	520	841	1,252	1,722	1,986	2,542	3,141
New York	79,773	93,880	97,171	105,831	113,836	120,402	139,441
North Carolina	1,454	5,422	9,472	12,035	16,414	21,511	27,577
North Dakota	344	394	549	712	1,019	986	1,547
Ohio	858	972	872	1,459	1,652	35,115	65,499
Oklahoma	566	970	1,289	1,585	1,942	2,674	5,758
Oregon	75,525	92,364	30,234	25,406	25,184	25,655	33,883
Pennsylvania	153,528	185,167	214,895	238,694	269,766	308,372	340,342
Puerto Rico	1,477	1,742	16,697	31,068	84,000	52,740	56,971
Rhode Island	137	148	1,512	2,979	2,943	3,508	4,565
South Carolina	480	886	1,441	1,446	2,332	3,342	11,206
South Dakota	270	543	690	672	621	848	1,796
Tennessee	5,105	6,626	11,591	13,510	15,828	17,694	22,018
Texas	1,837	3,325	6,973	7,062	11,758	14,353	25,785
Utah	1,183	1,577	1,883	1,952	3,075	5,317	10,176
Vermont	249	260	219	202	211	522	995
Virginia	116	1,167	1,832	1,858	1,927	2,347	10,923
Virgin Islands	116	278	479	544	1,320	2,128	1,825
Washington	8,699	12,512	14,467	15,148	16,861	24,808	27,812
West Virginia	162	147	149	123	109	147	356
Wisconsin	8,224	9,165	11,132	16,459	20,912	33,350	67,626
Wyoming	141	245	258	227	398	437	802
Nationwide total	736,315	958,291	984,447	1,144,322	1,377,641	1,603,730	2,024,317

Source: Office of Child Support Enforcement.

TABLE 9.—AVERAGE NUMBER OF AFDC CHILD SUPPORT ENFORCEMENT CASES IN WHICH A COLLECTION WAS MADE, FISCAL YEARS 1978–1986

State	1978	1979	1981	1982	1983	1984	1985	1986
Total	458,439	463,100	547,707	597,231	594,679	646,545	684,114	609,176
Alabama	7,966	21,489	18,398	18,675	16,301	15,166	9,133	11,405
Alaska	246	213	613	909	1,154	1,180	1,120	933
Arizona	819	906	1,094	1,018	1,164	1,813	1,851	1,374
Arkansas	2,509	2,641	3,019	3,090	3,683	4,591	5,207	5,181
California	92,325	76,460	86,859	[1] 123,393	86,277	91,956	103,742	82,277
Colorado	3,177	2,875	3,322	3,539	4,129	5,096	5,687	3,723
Connecticut	8,002	9,078	11,245	[2] 12,571	13,591	14,600	15,565	16,013
Delaware	1,156	1,704	2,313	1,691	2,254	2,684	2,891	3,013
District of Columbia	708	758	848	[2] 1,063	1,508	1,999	1,925	2,067
Florida	7,376	6,710	9,837	9,325	11,856	15,596	16,468	16,310
Georgia	6,350	6,023	7,360	6,946	7,826	8,964	6,657	8,568
Guam	([3])	([3])	102	131	186	193	206	198
Hawaii	1,757	1,869	2,319	2,272	2,718	3,126	4,622	2,197
Idaho	1,346	1,166	1,122	[2] 1,484	936	2,482	4,343	1,106
Illinois	9,624	10,348	13,717	[2] 14,611	15,551	17,622	18,299	13,997
Indiana	9,488	6,339	8,226	[4] 13,813	19,514	22,553	22,058	11,287
Iowa	8,396	9,684	11,245	8,887	10,135	12,232	11,871	7,206
Kansas	2,859	2,842	3,764	[2] 4,479	4,205	4,901	4,769	3,200
Kentucky	3,083	3,341	4,638	4,370	4,601	5,171	6,729	5,958
Louisiana	5,204	5,461	6,652	6,687	6,944	6,978	7,836	8,930
Maine	2,368	3,043	4,297	4,964	6,141	6,970	7,178	4,437
Maryland	14,002	12,840	15,063	14,481	15,576	15,796	15,861	15,074
Massachusetts	17,782	19,357	22,147	23,158	22,655	23,482	25,350	10,015
Michigan	61,985	66,270	70,851	68,266	73,442	74,189	59,049	45,120
Minnesota	9,818	9,145	13,854	12,752	12,891	13,933	14,872	13,497
Mississippi	1,846	2,033	2,757	2,765	3,216	3,627	3,742	3,530
Missouri	([3])	3,550	5,048	[2] 6,361	2,465	2,280	7,716	5,979
Montana	748	540	726	908	1,178	1,385	1,600	1,092
Nebraska	1,509	1,333	1,559	1,732	1,841	2,217	2,362	2,961
Nevada	494	492	1,976	2,013	2,261	2,245	2,370	2,201
New Hampshire	1,530	1,710	2,093	1,745	1,512	1,169	1,021	999
New Jersey	16,243	31,161	28,663	26,493	24,712	29,751	27,686	23,354
New Mexico	1,429	1,650	1,772	2,085	2,027	2,779	2,034	2,785
New York	36,287	37,914	36,450	[4] [5] 41,968	44,168	46,386	48,979	43,338
North Carolina	11,232	([3])	10,621	10,347	12,089	13,104	14,216	43,232
North Dakota	759	772	1,074	1,170	1,193	1,460	1,656	898
Ohio	24,419	20,456	26,097	24,519	26,064	28,771	32,582	37,016
Oklahoma	1,101	724	2,052	2,231	2,487	3,223	3,543	4,019
Oregon	6,761	6,771	6,330	4,399	4,020	6,202	6,687	6,016
Pennsylvania	15,172	13,376	[6] 22,406	[6] 29,970	35,405	39,565	42,088	48,960
Puerto Rico	413	636	2,044	1,880	2,281	2,683	3,736	3,343
Rhode Island	2,419	2,698	3,176	3,337	2,441	3,133	3,233	2,241
South Carolina	3,343	([3])	4,091	3,760	4,182	5,571	5,785	6,008
South Dakota	1,087	983	1,016	1,064	1,223	1,279	1,532	1,492
Tennessee	4,705	4,674	6,099	5,967	6,542	7,273	8,336	8,959
Texas	5,446	5,641	5,370	4,013	4,099	4,674	5,652	8,353
Utah	3,784	3,857	4,663	5,784	5,346	5,686	5,209	3,313
Vermont	953	1,057	1,778	1,972	2,223	2,167	2,329	1,547
Virgin Islands	232	145	115	123	82	121	199	222
Virginia	4,729	2,802	9,059	12,979	13,554	13,815	13,054	12,189
Washington	14,860	14,184	15,078	[7] 12,619	14,160	15,900	15,895	15,204
West Virginia	1,430	1,721	1,829	1,824	2,044	2,247	2,331	2,463
Wisconsin	16,868	21,391	20,514	20,281	26,106	24,166	44,799	23,720
Wyoming	294	267	346	347	420	393	453	656

[1] OCSE estimate, based on data submitted through time of publication.
[2] Increase due to impact of Federal Tax Refund Offset Program.
[3] Data not reported for this item or insufficient data reported to perform indicated computation.
[4] Indiana: Increase due to enlargement of State's total IV–D AFDC caseload.
[5] New York: Increase reflects unrealistically low average in fiscal year 1981, due to incomplete reporting by New York City.
[6] Pennsylvania: Increases due to greater number of counties reporting data and to more accurate data resulting from improved county ADP systems.
[7] Washington: Decrease due to change from estimated to actual case counts.

Source: Office of Child Support Enforcement.

TABLE 10.—AVERAGE NUMBER OF NON-AFDC CHILD SUPPORT ENFORCEMENT CASES IN WHICH A COLLECTION WAS MADE, FISCAL YEARS 1978–1986

State	1978	1979	1981	1982	1983	1984	1985	1986
Total	248,590	223,809	325,280	448,102	507,031	547,173	653,803	763,691
Alabama	110	50	26	31	221	893	5,023	11,133
Alaska	2,309	2,008	1,967	2,451	3,035	3,260	3,205	2,564
Arizona	(1)	3,478	0	4,422	5,525	5,148	4,770	4,250
Arkansas	764	1,521	2,137	2,581	2,803	3,194	3,613	4,048
California	69,696	54,019	56,803	[2] 59,245	66,164	63,650	64,686	71,357
Colorado	1,017	780	2,963	4,069	3,647	2,260	3,976	3,187
Connecticut	(1)	0	0	0	7,826	8,484	9,392	9,808
Delaware	3,210	3,104	3,302	3,175	3,611	3,788	4,395	4,212
District of Columbia	93	43	200	370	478	900	1,007	1,116
Florida	1,200	2,101	1,941	[3] 4,025	8,002	3,581	7,593	7,434
Georgia	1,207	1,451	2,018	2,855	4,091	6,001	5,487	8,284
Guam	(1)	0	39	61	63	81	65	86
Hawaii	(1)	0	261	298	308	321	352	3,926
Idaho	455	314	435	611	591	586	1,047	1,613
Illinois	196	1,260	3,423	[4] 6,205	6,433	6,603	10,030	12,171
Indiana	450	675	1,209	1,546	1,784	1,972	2,881	8,578
Iowa	671	1,460	3,419	3,738	4,192	4,240	4,913	5,095
Kansas	210	320	945	1,184	1,449	1,668	758	3,095
Kentucky	255	1,667	2,076	2,449	3,657	3,836	3,647	8,387
Louisiana	6,866	965	7,706	8,060	9,517	9,987	10,636	11,940
Maine	638	296	196	271	296	933	1,496	3,056
Maryland	130	0	6,186	15,849	27,384	26,232	26,154	30,875
Massachusetts	(1)	0	0	0	0	0	0	0
Michigan	(1)	0	0	53,137	51,304	50,131	88,675	84,397
Minnesota	2,766	3,866	5,707	[5] 8,331	10,263	11,155	12,615	14,067
Mississippi	81	153	248	318	320	456	1,319	2,742
Missouri	(1)	913	1,754	2,490	1,631	1,754	5,362	10,001
Montana	444	301	329	340	348	348	344	470
Nebraska	176	181	2,432	[6] 5,011	4,942	7,122	7,874	9,079
Nevada	4,026	2,558	4,650	4,792	4,084	4,758	5,360	3,929
New Hampshire	(1)	0	0	0	5,433	5,036	4,939	5,234
New Jersey	20,000	13,295	29,130	34,662	38,557	44,345	45,868	53,091
New Mexico	286	875	1,035	1,504	1,806	1,624	2,249	1,637
New York	39,623	37,854	48,370	55,832	54,296	60,471	63,829	66,234
North Carolina	1,715	0	3,190	4,524	5,910	7,800	10,137	11,744
North Dakota	154	149	99	127	171	221	266	653
Ohio	1,430	1,033	1,857	3,540	4,594	7,756	10,853	27,315
Oklahoma	(1)	184	719	1,078	1,269	1,400	1,968	2,977
Oregon	17,957	28,807	32,472	[7] 16,065	16,262	16,520	19,331	18,467
Pennsylvania	49,621	37,877	66,691	[8] 90,694	92,084	104,449	108,498	123,878
Puerto Rico	710	178	[9] 6,846	[9] 9,114	17,908	22,916	26,873	27,687
Rhode Island	57	110	294	1,900	1,407	1,941	1,969	2,059
South Carolina	203	0	472	1,013	1,198	1,948	2,777	2,706
South Dakota	297	254	391	491	512	516	502	1,144
Tennessee	6,360	7,816	6,251	8,532	10,271	11,032	12,156	13,001
Texas	2,861	1,673	2,744	3,888	4,224	4,575	8,833	9,595
Utah	400	427	489	632	698	889	1,068	2,750
Vermont	181	194	194	172	194	153	393	570
Virgin Islands	1	64	188	267	262	925	1,288	1,188
Virginia	38	36	1,078	914	1,554	916	876	5,689
Washington	4,822	5,115	6,215	6,648	7,422	8,824	9,802	10,456
West Virginia	130	147	185	386	186	125	288	157
Wisconsin	4,685	4,150	3,876	8,061	6,719	9,303	20,288	34,146
Wyoming	89	87	122	143	125	146	77	413

[1] Data not reported for this item or insufficient data reported to perform indicated computation.

[2] OCSE estimate, based on data submitted through time of publication.

[3] Florida: Increase due to more accurate data resulting from new State Management Information System.

[4] Illinois: Increase due to enlargement of State's total non-AFDC caseload.

[5] Minnesota: Increase due to enlargement of State's total non-AFDC caseload.

[6] Nebraska: Increase in fiscal year 1982 due to irregular reporting by clerks of district courts and county attorneys offices.

[7] Oregon: Decrease due to change in State law regarding umbrella agency's jurisdiction over all non-AFDC families for whom support payments are to be made; now only families specifically requesting enforcement services are counted.

[8] Pennsylvania: Increase due to greater number of counties reporting and to more accurate data resulting from improved county ADP systems.

[9] Puerto Rico: Increases due to updating of caseload files and revision of previously reported data by Office of Court Administration.

Source: Office of Child Support Enforcement.

TABLE 11.—NUMBER OF FAMILIES REMOVED FROM AFDC DUE TO CHILD SUPPORT COLLECTIONS, FISCAL YEARS 1978–1986

State	1978	1979	1981	1982	1983	1984	1985	1986
Total	18,744	27,480	45,631	31,883	26,194	41,062	33,897	247,899
Alabama	1,048	284	135	113	2,011	968	324	425
Alaska	(1)	398	150	200	220	40	13	220
Arizona	118	17	31	[2] 47	10	0	0	0
Arkansas	824	215	297	[3] 507	308	159	109	3,128
California	(1)	0	0	0	0	88	445	8,714
Colorado	1,419	288	172	[4] 568	0	2,629	618	1,196
Connecticut	(1)	640	20[5]	[5] 77	196	228	667	383
Delaware	(1)	128	0	62	94	62	54	0
District of Columbia	7	11	53	90	0	75	0	0
Florida	434	356	582	332	457	819	305	0
Georgia	(1)	272	0	469	37	1,302	1,600	3,118
Guam	(1)	0	15	13	69	0	0	10
Hawaii	29	0	27	239	189	114	140	104
Idaho	66	80	480	104	55	8	38	827
Illinois	718	0	0	0	546	765	615	1,571
Indiana	(1)	0	5,770	322	0	863	154	14,465
Iowa	(1)	780	41	18	23	78	21	1,516
Kansas	1,770	1,197	483	421	89	270	194	1,313
Kentucky	(1)	0	436	0	375	287	257	1,282
Louisiana	(1)	796	1,022	[6] 685	732	767	645	610
Maine	(1)	0	650	454	572	167	197	1,839
Maryland	1,848	1,184	970	[7] 668	648	1,074	0	3,583
Massachusetts	(1)	206	0	0	370	664	1,258	103,967
Michigan	209	1,417	1,639	1,391	1,008	1,059	570	445
Minnesota	582	490	1,146	1,032	815	1,459	808	5,095
Mississippi	47	0	86	218	0	23	68	1,622
Missouri	(1)	96	952	0	0	0	0	48,068
Montana	138	141	82	120	29	90	53	52
Nebraska	96	72	46	32	3	7	23	21
Nevada	(1)	0	106	65	138	80	79	126
New Hampshire	34	0	0	0	0	0	28	0
New Jersey	2,007	2,218	3,155	3,265	2,573	4,450	4,386	7,006
New Mexico	123	7	66	27	47	20	51	121
New York	(1)	2,050	2,495	[8] 5,027	3,318	5,124	6,105	5,771
North Carolina	(1)	244	289	0	288	333	145	117
North Dakota	(1)	1,218	125	125	578	2,207	1,673	2,044
Ohio	(1)	243	584	544	501	338	226	131
Oklahoma	859	208	159	128	169	199	101	12,096
Oregon	3,144	3,654	478	269	243	205	113	88
Pennsylvania	(1)	2,713	0	0	905	1,390	665	6,784
Puerto Rico	113	64	260	272	556	2,399	1,032	11
Rhode Island	(1)	1,810	1,383	1,548	0	363	282	1,278
South Carolina	51	0	724	931	0	1,475	1,867	158
South Dakota	287	136	123	126	30	112	36	746
Tennessee	(1)	0	16,152	6,300	4,223	2,857	2,730	1,661
Texas	1,921	1,697	1,405	[9] 2,314	2,111	3,618	2,851	2,210
Utah	329	331	401	337	0	321	647	670
Vermont	(1)	0	0	0	0	0	0	348
Virgin Islands	(1)	5	1	0	0	0	1	5
Virginia	167	1,475	524	166	0	77	111	107
Washington	(1)	0	0	0	0	0	0	506
West Virginia	270	250	1,383	1,457	932	775	689	509
Wisconsin	(1)	0	233	756	518	647	903	1,014
Wyoming	86	89	111	44	208	7	0	8

[1] Data not reported for this item or insufficient data reported to perform indicated computation.
[2] Arizona: Represents data for only 11 months of the fiscal year.
[3] Arkansas: Increase due to reduced AFDC grant payments during 1st and 2nd quarters, causing more cases to close when collections made.
[4] Colorado: Increase due to reporting of data for 12 months instead of 2.
[5] Connecticut: Represents data for 4th quarter only.
[6] Louisiana: Decrease due to high unemployment rates causing decrease in payments from absent parents.
[7] Maryland: Decrease due to incomplete reporting by counties; no data collected from Baltimore County.
[8] New York: Increase due to more accurate data resulting from improved reporting by districts.
[9] Texas: Increase due to increased enforcement of court orders.

Note: These data are maintained by IV–A agencies, which often results in reporting difficulties for IV–D agencies. Also, 1986 data was reported using a new definition. This data represents IV–A cases closed when a child support payment was received.

Source: Office of Child Support Enforcement.

TABLE 12.—TOTAL NUMBER OF PATERNITIES ESTABLISHED, FISCAL YEARS 1978–1986

State	1978	1979	1981	1982	1983	1984	1985	1986
Total	110,714	137,645	163,538	172,767	208,270	219,360	231,838	244,864
Alabama	6,160	6,161	4,884	4,472	4,833	4,921	6,750	6,727
Alaska	5	3	73	98	105	90	84	252
Arizona	287	154	542	618	595	500	495	986
Arkansas	3,745	2,586	677	1,131	1,489	1,911	2,941	7,144
California	14,188	19,364	22,791	[1] 21,427	21,714	24,378	23,820	25,118
Colorado	1,137	1,046	1,103	1,154	1,033	1,187	1,426	1,451
Connecticut	2,566	3,029	3,769	4,397	4,563	4,363	4,622	4,579
Delaware	242	205	694	871	1,346	929	1,120	1,986
District of Columbia	378	386	907	941	811	471	583	664
Florida	6,684	7,078	7,557	[2] 8,870	10,679	15,741	14,452	14,358
Georgia	2,527	3,642	5,329	5,452	6,102	6,518	5,809	12,323
Guam	([3])	([3])	297	144	173	115	170	128
Hawaii	726	854	794	1,077	1,181	888	688	836
Idaho	40	287	79	34	84	205	383	299
Illinois	1,351	3,025	6,028	6,194	7,339	4,711	7,035	10,820
Indiana	2,052	1,644	1,287	[4] 3,853	3,036	6,859	5,149	3,580
Iowa	([3])	575	1,373	1,121	922	1,072	1,366	1,853
Kansas	521	696	1,141	978	682	404	325	528
Kentucky	367	784	2,157	2,453	2,986	2,774	3,315	3,425
Louisiana	1,013	1,304	2,869	3,273	3,195	3,180	4,235	4,234
Maine	([3])	382	339	595	604	554	809	570
Maryland	6,294	13,307	10,435	[5] 8,417	8,211	8,290	9,263	8,167
Massachusetts	1,218	2,096	3,564	3,429	3,766	3,841	5,208	2,438
Michigan	6,567	7,529	10,696	[6] 12,952	17,374	13,875	16,186	17,737
Minnesota	1,249	1,786	2,526	2,707	2,994	3,090	3,265	3,646
Mississippi	819	932	1,725	1,751	1,797	2,139	2,600	1,964
Missouri	([3])	([3])	476	424	17,522	17,046	14,423	10,208
Montana	68	92	97	[7] 56	37	33	54	120
Nebraska	([3])	([3])	268	335	410	449	430	454
Nevada	214	233	395	[8] 626	409	356	477	503
New Hampshire	42	35	71	64	30	52	13	66
New Jersey	7,503	8,242	11,282	9,647	10,616	11,739	13,853	13,731
New Mexico	170	322	1,258	1,071	1,141	970	709	838
New York	16,025	17,503	12,041	12,751	15,884	17,403	16,595	16,929
North Carolina	5,129	6,592	6,728	7,071	7,368	7,185	9,307	10,014
North Dakota	280	293	328	284	440	488	530	830
Ohio	2,305	4,808	7,658	8,552	7,767	9,804	9,314	10,057
Oklahoma	32	43	698	[9] 1,132	1,811	562	590	430
Oregon	1,528	1,521	2,199	2,190	2,173	1,947	2,189	2,351
Pennsylvania	4,811	4,450	7,305	9,362	11,906	13,404	15,613	17,443
Puerto Rico	25	22	38	37	19	12	5	21
Rhode Island	([3])	347	354	333	451	549	244	98
South Carolina	1,055	1,378	1,536	1,413	2,552	3,879	3,479	2,538
South Dakota	104	60	137	159	172	227	300	426
Tennessee	5,077	5,003	5,669	5,913	6,592	6,217	6,863	7,021
Texas	215	202	1,822	1,862	1,085	769	833	900
Utah	166	487	1,076	1,229	1,546	1,669	1,418	1,103
Vermont	77	44	245	234	349	379	388	688
Virgin Islands	1	4	3	22	104	15	146	106
Virginia	846	1,452	1,995	2,463	2,351	1,990	1,962	2,039
Washington	291	656	981	1,474	1,700	1,905	2,187	2,018
West Virginia	155	156	482	521	467	378	223	194
Wisconsin	4,440	4,803	4,672	5,025	5,688	6,895	7,384	7,812
Wyoming	19	44	88	108	56	32	210	113

[1] OCSE estimate, based on data submitted through time of publication.
[2] Florida: Increase due to hiring new staff, to change in tactics caused by legal decision, to increased number of applicants for non-AFDC services, and to increased number of illegitimate births.
[3] Data not reported for this item or insufficient data reported to perform indicated computation.
[4] Indiana: Increase due to correction of error in reporting method and resulting inclusion of previously unreported data.
[5] Maryland: Decrease due to concentration of staff efforts on locate activity.
[6] Michigan: Increase due to reporting of previously unavailable data from contracted agencies.
[7] Montana: Decrease due to hiring freeze and centralization of non-AFDC caseload, resulting in fewer staff available to maintain caseload.
[8] Nevada: Increase due to increased staffing and worker effectiveness.
[9] Oklahoma: Increase due to more voluntary acknowledgments resulting from improved methods of paternity establishment.

Source: Office of Child Support Enforcement.

TABLE 13.—TOTAL NUMBER OF SUPPORT OBLIGATIONS ESTABLISHED, FISCAL YEARS 1978–1986

State	1978	1979	1981	1982	1983	1984	1985	1986
Total	314,584	349,122	414,053	462,128	496,294	573,313	668,942	723,368
Alabama	8,545	7,585	5,137	5,978	6,766	11,615	17,781	11,476
Alaska	178	553	955	1,159	1,197	1,145	1,311	2,026
Arizona	(1)	686	2,993	3,014	3,069	2,145	2,761	2,587
Arkansas	6,277	3,382	3,484	3,121	3,519	4,666	5,698	12,704
California	51,752	61,806	63,323	[2] 56,402	54,598	56,528	54,310	54,651
Colorado	5,553	4,996	6,560	6,087	6,356	4,204	5,576	4,599
Connecticut	27,858	11,123	12,474	11,867	16,272	10,115	8,389	9,398
Delaware	247	276	1,814	2,415	1,709	1,406	1,953	3,669
District of Columbia	468	416	550	432	357	879	701	732
Florida	13,742	11,560	13,778	[3] 15,562	18,098	16,686	21,037	28,339
Georgia	4,443	5,739	7,372	7,631	9,551	9,894	8,687	12,323
Guam	(1)	(1)	169	98	132	81	146	105
Hawaii	2,585	1,748	2,069	2,476	3,351	3,297	3,234	2,434
Idaho	899	9,444	3,965	1,962	763	648	861	696
Illinois	16,512	11,379	10,933	14,995	22,850	19,198	20,819	19,455
Indiana	3,471	2,314	12,719	11,915	12,282	12,556	12,307	15,453
Iowa	(1)	4,204	10,752	[4] 9,393	8,490	10,701	7,358	8,725
Kansas	5,301	2,781	2,600	2,587	1,636	1,823	1,800	1,896
Kentucky	516	1,590	5,718	[5] 3,914	4,826	6,181	6,048	7,507
Louisiana	2,094	4,587	7,678	8,502	9,483	23,617	21,419	15,155
Maine	(1)	1,115	3,109	3,388	3,374	3,657	4,093	4,891
Maryland	10,341	8,128	10,100	[6] 7,878	9,238	22,818	27,592	32,797
Massachusetts	10,154	9,758	12,414	16,785	9,196	9,806	11,950	13,715
Michigan	6,123	7,572	10,445	[7] 13,303	15,436	24,826	35,416	57,845
Minnesota	1,747	4,095	8,268	7,810	6,626	10,243	10,130	9,798
Mississippi	720	730	822	808	861	1,680	3,065	2,418
Missouri	(1)	(1)	3,719	[8] 2,335	12,110	25,053	51,918	38,520
Montana	139	78	69	[9] 377	486	625	881	955
Nebraska	218	(1)	789	832	875	737	662	1,138
Nevada	1,889	1,579	4,362	3,842	3,883	3,858	3,339	3,405
New Hampshire	162	1,828	219	107	2,060	425	387	297
New Jersey	18,408	27,034	24,744	25,447	28,481	32,484	37,724	29,300
New Mexico	1,758	2,826	4,416	3,478	4,290	3,672	3,044	2,691
New York	25,098	28,379	27,987	28,036	37,131	45,144	43,733	51,063
North Carolina	4,282	10,577	11,473	11,964	12,584	12,467	17,277	18,764
North Dakota	589	571	443	547	528	647	523	878
Ohio	6,216	10,248	7,796	[10] 11,310	8,461	14,475	14,080	15,680
Oklahoma	624	1,770	3,824	3,703	3,747	4,549	4,113	4,793
Oregon	479	7,660	7,259	6,004	6,989	5,323	5,830	4,635
Pennsylvania	30,243	32,347	34,942	[11] 75,106	71,041	73,671	99,619	108,188
Puerto Rico	1,484	1,199	5,372	7,817	9,623	12,385	12,764	10,010
Rhode Island	(1)	2,391	2,835	1,824	4,514	2,517	2,322	3,046
South Carolina	1,065	924	1,272	1,278	1,928	5,862	4,747	3,613
South Dakota	1,735	(1)	338	354	516	516	653	1,035
Tennessee	2,603	3,408	4,149	8,545	7,307	9,234	10,742	13,045
Texas	12,171	12,066	11,784	12,331	13,523	10,437	12,461	31,671
Utah	4,520	3,582	4,794	5,338	6,251	7,894	6,551	5,331
Vermont	250	944	1,327	1,049	1,436	1,465	2,671	2,152
Virgin Islands	116	33	138	186	142	462	886	541
Virginia	969	2,407	7,949	8,646	5,223	3,913	7,594	7,785
Washington	10,340	9,546	9,211	10,072	10,948	9,416	9,961	7,767
West Virginia	349	382	728	580	558	686	700	464
Wisconsin	9,170	9,678	11,544	11,190	11,306	14,656	18,860	20,685
Wyoming	181	98	369	348	317	325	458	522

[1] Data not reported for this item or insufficient data reported to perform indicated computation.

[2] OCSE estimate based on data submitted through time of publication.

[3] Florida: Increase due to hiring of new staff, to change in tactics caused by legal decision, implementation of recommendations from Federal comprehensive review and to personnel reorganization which allowed investigators more time to work on establishments.

[4] Iowa: Decrease due to implementation of case prioritization procedures.

[5] Kentucky: Decrease due to change in data collection methodology and to reduced AFDC caseload resulting from more stringent N–A eligibility requirements.

[6] Maryland: Decrease due to concentration of staff efforts on locate activity.

[7] Michigan: Increase due to reporting of previously unavailable data from contracted agencies.

[8] Missouri: Decrease due to reporting problems resulting from implementation of new State ADP system.

[9] Montana: Increase due to clarification of reporting requirements.

[10] Ohio: Increase due to greater efforts on part of county workers.

[11] Pennsylvania: Increase due to greater number of counties reporting data and to more accurate data resulting from improved county ADP systems.

Source: Office of Child Support Enforcement.

TABLE 14.—PERCENTAGE OF AFDC ASSISTANCE PAYMENTS RECOVERED THROUGH CHILD SUPPORT COLLECTIONS, FISCAL YEARS 1979–1986

State	1979	1981	1982	1983	1984	1985	1986
Total	5.8	5.2	6.8	6.6	7.0	7.3	8.6
Alabama	8.5	6.5	[1] [2] 11.2	10.6	12.0	21.0	21.2
Alaska	1.5	2.3	3.2	5.9	4.6	4.6	5.6
Arizona	2.0	2.6	2.5	2.3	3.2	2.5	3.5
Arkansas	4.8	5.3	[2] [3] 8.9	13.3	13.3	15.2	16.6
California	6.5	4.0	[1] [3] 6.2	4.6	4.8	4.5	5.7
Colorado	4.8	5.1	[2] [3] 7.6	9.4	8.4	9.3	10.5
Connecticut	6.5	7.6	[3] 10.5	12.7	9.8	10.1	11.4
Delaware	4.4	6.2	7.3	8.4	12.7	14.6	16.3
District of Columbia	1.0	1.6	2.1	3.0	3.0	3.3	3.6
Florida	5.5	5.9	[1] [2] 6.9	4.3	12.3	10.0	10.1
Georgia	4.3	5.0	4.7	6.0	7.5	9.8	9.3
Guam	5.3	3.0	5.0	6.1	6.2	6.4	6.0
Hawaii	2.9	3.4	4.1	5.3	5.4	6.6	7.6
Idaho	8.9	12.1	[1] [2] 17.0	17.8	18.8	22.6	24.8
Illinois	1.5	1.6	2.3	2.3	2.9	3.2	4.0
Indiana	7.2	7.0	[1] [2] 8.4	12.1	14.8	16.1	20.2
Iowa	9.0	10.3	[2] [3] 14.4	13.5	14.2	15.0	18.2
Kansas	5.0	6.0	[2] [3] 10.8	8.6	8.4	11.6	12.6
Kentucky	3.8	2.9	3.1	5.0	4.7	6.8	8.0
Louisiana	5.2	5.7	[2] [3] 7.3	7.2	7.1	8.4	8.9
Maine	7.3	8.1	10.2	13.3	14.0	13.4	16.7
Maryland	6.1	7.0	7.4	12.4	10.6	11.6	12.9
Massachusetts	6.6	7.4	[1] [2] 9.1	13.6	13.3	11.3	11.5
Michigan	9.0	7.9	[2] [3] 12.9	8.6	8.8	9.7	12.8
Minnesota	7.8	8.4	[2] [3] 11.2	10.0	10.0	10.5	13.1
Mississippi	2.9	3.7	4.3	8.0	8.5	7.9	8.1
Missouri	2.8	3.4	[2] [3] 7.1	6.1	7.3	9.6	9.8
Montana	4.4	5.6	6.7	7.7	8.4	10.7	11.0
Nebraska	5.4	6.4	7.0	6.8	7.6	10.0	10.7
Nevada	6.3	7.1	[2] [3] 12.5	16.8	17.3	14.9	18.3
New Hampshire	9.4	8.0	[2] [3] 9.4	11.2	11.3	12.4	12.1
New Jersey	5.9	5.9	7.0	8.1	10.3	9.7	11.4
New Mexico	3.4	4.2	5.0	6.7	7.2	7.3	13.7
New York	3.5	3.2	3.5	3.9	3.6	4.0	4.3
North Carolina	5.6	7.5	[2] [3] 8.9	16.3	14.1	15.0	15.2
North Dakota	9.6	9.8	[2] [3] 12.3	13.5	14.6	14.7	15.8
Ohio	4.8	5.0	6.1	5.1	5.5	6.2	8.9
Oklahoma	1.6	2.5	3.5	4.7	6.6	7.5	7.2
Oregon	9.0	12.0	[2] [3] 16.4	12.6	12.1	13.3	13.1
Pennsylvania	4.6	4.9	6.0	6.4	8.0	8.4	10.5
Puerto Rico	.7	1.1	1.1	2.9	1.8	2.4	2.8
Rhode Island	6.1	4.8	5.7	6.3	7.1	7.0	7.5
South Carolina	5.4	5.6	6.2	7.9	11.7	8.6	10.2
South Dakota	6.5	7.1	[2] 8.6	12.4	12.3	12.9	13.8
Tennessee	5.0	4.1	[1] [2] 7.9	6.9	7.8	6.5	9.7
Texas	5.4	6.3	5.8	7.0	7.0	6.9	6.2
Utah	13.7	16.3	[2] [3] 21.2	21.6	23.0	22.7	22.7
Vermont	4.1	5.0	[2] [3] 9.1	7.2	6.7	8.4	10.4
Virgin Islands	8.5	5.3	6.3	4.7	5.0	7.6	7.7
Virginia	6.3	5.0	[2] [3] 6.3	7.0	7.3	8.3	7.7
Washington	12.5	8.1	9.2	10.1	9.9	9.8	11.2
West Virginia	2.6	3.6	[2] [3] 5.6	5.8	5.2	5.1	7.5
Wisconsin	9.5	8.7	9.5	8.8	8.5	8.8	11.5
Wyoming	5.6	6.3	7.2	7.1	7.3	5.5	8.8

[1] Increase due in part to increased AFDC child support collections. For explanation, see footnotes for Total Distributed AFDC Collections (1982).
[2] Increase due in part or in whole to decreased AFDC maintenance assistance payments.
[3] Increase due in part or in whole to increased AFDC child support collections resulting from the Federal Tax Refund Offset Program.

Note: Payments to AFDC Unemployed Parent (UP) families have been excluded from the maintenance assistance payments totals in those States having AFDC–UP programs.

Source: Office of Child Support Enforcement.

TABLE 15.—FEDERAL INCOME TAX REFUND OFFSET PROGRAM COLLECTIONS, FISCAL YEARS 1982–1986

State	1982	1983	1984	1985	1986
Alabama	$829,981	$1,554,532	$2,438,075	$3,208,116	$4,158,370
Alaska	113,964	211,588	302,922	364,352	730,773
Arizona		385,357	748,557	1,061,518	1,735,826
Arkansas	678,754	1,103,566	1,386,540	1,885,789	3,536,308
California	47,278,536	35,033,947	34,378,912	34,926,396	45,040,352
Colorado	1,318,097	3,016,164	2,771,764	2,392,575	3,096,581
Connecticut	6,589,307	4,455,263	4,193,916	4,223,787	5,696,890
Delaware	44,975	165,929	1,113,150	1,284,104	1,270,313
District of Columbia	586,913	566,848	694,106	746,926	761,360
Florida	47,460	1,979,829	2,932,974	3,937,836	5,782,072
Georgia	17,724	1,525,893	2,684,691	3,710,746	6,561,813
Guam		13,495	20,822	13,562	
Hawaii	311,330	816,566	986,024	846,387	1,079,724
Idaho	1,492,980	1,183,105	1,199,305	1,203,527	1,428,403
Illinois	3,522,114	4,524,565	8,651,417	9,018,581	13,808,087
Indiana	1,278,354	4,939,883	8,537,166	8,975,438	11,780,348
Iowa	4,328,872	5,526,322	6,503,704	6,783,766	8,006,046
Kansas	2,685,617	2,525,333	2,634,443	2,904,537	3,460,795
Kentucky	2,168,561	1,165,135	2,043,980	2,298,529	3,099,365
Louisiana	1,426,863	1,536,006	1,958,915	2,487,475	4,443,087
Maine	664,374	1,844,168	2,114,258	2,126,207	2,483,995
Maryland	7,912,475	5,687,760	6,333,562	6,118,488	9,425,858
Massachusetts	2,139,366	3,324,872	2,992,203	4,224,674	4,759,597
Michigan	20,928,752	18,249,916	19,174,089	20,013,492	27,204,565
Minnesota	7,040,081	5,575,703	5,925,460	5,904,025	6,967,590
Mississippi	1,055,579	1,019,253	1,535,952	1,976,454	2,161,479
Missouri	6,467,902	4,288,944	4,607,125	4,849,186	7,124,967
Montana	177,985	431,107	610,862	857,855	1,151,151
Nebraska		501,968	784,106	1,204,572	1,240,436
Nevada	428,182	354,403	366,334	389,049	477,143
New Hampshire	474,129	756,639	545,252	662,364	1,346,108
New Jersey	9,348,364	9,458,355	10,232,231	11,449,337	13,831,313
New Mexico	206,602	533,226	702,254	1,315,407	1,719,059
New York	7,445,728	9,945,365	8,247,539	11,996,379	17,419,887
North Carolina	39,888	4,234,868	4,616,756	4,290,753	7,561,568
North Dakota	320,818	351,782	560,929	534,445	774,297
Ohio	649,865	2,885,540	5,145,031	7,229,010	8,705,343
Oklahoma	49,690	702,729	1,796,087	2,178,542	2,519,402
Oregon	7,069,119	3,782,458	3,520,661	3,566,932	5,479,093
Pennsylvania	2,304,759	6,112,433	13,567,884	13,549,899	17,430,478
Puerto Rico		1,742	22,852	13,047	
Rhode Island	87,631	838,028	742,855	775,077	967,250
South Carolina	138,404	367,589	719,987	832,341	1,238,379
South Dakota	275,351	374,463	510,993	623,409	900,309
Tennessee	41,501	64[illegible]397	1,221,963	1,591,819	2,178,356
Texas		3,906,440	4,994,786	5,927,713	9,757,440
Utah	3,635,336	2,539,972	2,558,126	2,764,993	2,992,094
Vermont	1,245,080	611,431	590,943	748,212	946,258
Virgin Islands					
Virginia	1,435,103	1,674,400	1,946,585	3,532,487	3,704,510
Washington	3,001,125	4,277,743	5,003,042	6,200,914	7,989,119
West Virginia	258,507	1,037,796	1,595,140	1,823,086	1,913,420
Wisconsin	8,340,059	6,265,914	5,102,546	7,973,405	9,597,270
Wyoming	165,555	221,757	191,272	280,427	387,739
Nationwide total	168,067,712	175,021,087	204,761,048	229,797,947	307,831,986

Source: Office of Child Support Enforcement.

TABLE 16.—ADMINISTRATIVE EXPENDITURES FOR THE CHILD SUPPORT ENFORCEMENT PROGRAM, FISCAL YEARS 1979–1986

[In thousands of dollars]

State	1979	1981	1982	1983	1984	1985	1986
Alabama	$4,633	$5,637	$7,089	$9,132	$10,757	$12,786	13,273
Alaska	2,137	2,422	2,760	4,016	4,314	4,772	4,916
Arizona	2,014	4,659	3,415	5,891	6,550	5,996	10,210
Arkansas	2,385	3,657	4,722	4,539	4,796	5,252	5,670
California	75,579	100,807	112,766	127,171	123,947	131,625	141,939
Colorado	3,861	6,078	6,630	7,987	8,774	8,827	10,058
Connecticut	5,463	7,833	9,462	11,899	12,847	14,252	15,589
Delaware	852	2,512	2,066	3,299	2,105	1,903	4,965
District of Columbia	1,652	3,255	4,267	4,968	4,448	4,424	5,647
Florida	7,047	10,345	14,109	15,718	17,568	21,741	29,830
Georgia	3,238	4,777	7,089	8,208	10,299	11,793	13,624
Guam	108	161	223	315	319	296	351
Hawaii	1,408	2,708	3,094	3,705	4,338	4,902	5,227
Idaho	1,063	1,464	1,684	2,145	2,537	3,016	3,063
Illinois	6,930	14,622	16,627	16,320	18,589	25,515	30,256
Indiana	4,269	6,147	7,619	6,766	7,925	8,887	9,759
Iowa	4,239	5,808	6,231	5,930	5,821	5,805	5,987
Kansas	1,819	3,843	4,660	5,220	4,695	5,586	7,651
Kentucky	4,027	6,012	7,075	7,674	8,143	9,387	11,109
Louisiana	7,079	9,401	10,546	12,860	14,013	16,108	18,047
Maine	1,229	1,863	2,625	2,942	3,217	3,545	4,484
Maryland	8,177	13,973	13,886	16,355	18,484	21,739	25,365
Massachusetts	6,710	14,271	16,533	19,794	23,650	27,515	31,257
Michigan	24,614	30,364	36,575	41,365	44,523	44,750	50,979
Minnesota	9,273	12,937	16,407	17,358	17,760	20,249	22,796
Mississippi	1,574	1,965	2,402	2,936	2,986	3,411	5,155
Missouri	5,355	7,287	7,612	9,080	9,409	11,330	14,146
Montana	943	1,062	1,049	1,128	1,274	1,591	1,785
Nebraska	1,378	2,328	3,770	3,546	4,255	4,729	6,283
Nevada	1,891	3,023	3,130	3,437	3,364	3,572	4,269
New Hampshire	847	1,019	1,483	2,198	2,302	2,576	3,237
New Jersey	21,677	28,578	33,260	36,082	40,267	42,898	49,548
New Mexico	1,437	2,147	2,674	3,200	3,228	3,310	3,512
New York	61,665	63,658	77,830	86,437	89,777	101,862	121,400
North Carolina	5,721	8,705	11,150	12,293	14,059	15,314	17,000
North Dakota	702	1,024	1,210	1,246	1,458	1,591	1,893
Ohio	11,581	18,307	18,610	19,824	21,286	24,502	25,343
Oklahoma	2,771	4,896	6,128	6,117	5,548	6,336	7,297
Oregon	7,475	11,569	11,300	11,032	12,432	9,826	10,987
Pennsylvania	19,639	29,943	34,527	42,962	39,131	55,596	53,290
Puerto Rico	862	1,654	2,868	3,374	3,462	4,543	4,223
Rhode Island	1,079	1,584	2,033	2,141	2,354	2,456	2,685
South Carolina	1,777	2,215	2,353	2,887	4,445	6,511	9,189
South Dakota	1,060	1,026	1,175	1,198	1,173	1,335	1,630
Tennessee	3,046	5,504	6,420	7,041	7,026	8,175	9,482
Texas	11,733	14,256	16,492	15,071	14,124	13,960	21,522
Utah	3,094	4,982	5,629	6,789	7,308	8,609	10,085
Vermont	649	891	812	958	1,181	1,430	1,983
Virginia	4,787	7,038	7,645	7,668	8,029	8,801	15,698
Virgin Islands	483	323	217	319	424	715	954
Washington	10,733	11,826	13,300	16,979	18,934	22,941	25,291
West Virginia	1,676	2,404	2,962	2,550	2,613	2,830	2,873
Wisconsin	7,562	11,375	15,211	20,662	20,157	21,999	25,388
Wyoming	160	278	380	373	485	749	766
Nationwide total	383,163	526,423	611,792	691,106	722,910	814,165	938,989

Source: Office of Child Support Enforcement.

TABLE 17.—TOTAL CHILD SUPPORT COLLECTIONS PER DOLLAR OF TOTAL ADMINISTRATIVE EXPENDITURES, FISCAL YEARS 1978–1986

State	1978	1979	1981	1982	1983	1984	1985	1986
U.S. ratio	3.35	3.48	3.09	2.89	2.93	3.29	3.31	3.46
Alabama	.75	1.48	.89	1.14	.95	1.11	2.00	2.45
Alaska	3.19	1.80	2.45	2.68	2.42	2.39	2.26	2.61
Arizona	.88	3.18	1.88	3.05	1.79	2.18	2.15	1.34
Arkansas	1.00	1.64	1.33	1.18	1.63	1.63	1.90	2.62
California	2.15	2.65	2.00	2.19	2.00	2.31	2.32	2.38
Colorado	1.78	1.04	2.02	2.55	2.15	1.72	2.08	1.89
Connecticut	4.20	4.22	3.78	3.92	3.30	3.36	3.38	3.49
Delaware	7.14	6.82	2.76	3.57	2.45	4.64	5.62	2.46
District of Columbia	.73	.66	.59	.60	.71	.90	1.06	.92
Florida	1.20	1.49	1.64	1.44	1.21	2.43	2.10	2.12
Georgia	2.22	1.72	1.74	1.34	1.64	1.80	2.23	2.52
Guam		1.48	.92	1.16	1.24	1.52	1.46	1.38
Hawaii	1.71	3.66	2.79	2.66	2.72	2.37	2.38	2.26
Idaho	2.10	2.35	2.24	2.64	2.19	1.86	1.93	3.57
Illinois	2.10	1.55	.95	1.30	1.96	2.31	2.14	2.40
Indiana	2.42	2.13	2.01	1.91	3.07	3.29	3.79	4.82
Iowa	3.49	3.07	3.71	4.30	4.92	5.69	5.92	6.77
Kansas	3.01	2.19	1.80	2.06	1.90	2.32	2.05	2.15
Kentucky	1.14	1.21	2.45	2.07	2.57	2.75	2.68	2.52
Louisiana	1.82	1.79	1.90	2.12	2.00	1.96	2.13	2.21
Maine	3.40	3.72	3.05	2.84	3.48	3.75	3.98	3.95
Maryland	2.14	2.55	2.52	3.94	4.72	4.15	3.86	3.77
Massachusetts	5.12	5.42	3.71	3.85	3.65	3.55	3.57	3.50
Michigan	9.50	10.09	10.06	6.57	6.62	6.86	7.62	8.33
Minnesota	2.15	2.30	2.32	2.31	2.59	2.94	2.91	3.02
Mississippi	.87	1.06	1.28	1.12	1.66	1.77	2.02	2.29
Missouri	.89	1.09	1.70	2.44	2.00	2.64	3.24	3.89
Montana	1.58	1.29	1.60	1.67	2.14	2.27	2.46	2.59
Nebraska	2.10	1.79	4.65	4.54	5.65	5.69	6.32	5.44
Nevada	1.83	1.84	1.33	1.51	1.62	1.91	2.04	2.10
New Hampshire	4.05	2.47	2.29	3.12	5.29	5.16	4.96	4.39
New Jersey	4.16	4.37	3.67	3.96	3.97	4.55	4.67	4.63
New Mexico	1.17	1.17	1.28	1.30	1.44	1.71	1.90	2.27
New York	1.75	2.21	2.23	1.95	2.02	2.03	1.96	1.83
North Carolina	1.50	1.60	1.98	2.00	2.51	2.65	2.94	3.26
North Dakota	1.83	2.45	1.89	1.91	2.19	2.31	2.29	2.46
Ohio	2.50	1.97	1.72	1.66	1.76	1.95	3.38	4.92
Oklahoma	.76	.66	.66	.64	.86	1.36	1.46	1.78
Oregon	9.48	11.84	9.13	4.13	3.45	3.01	4.05	4.47
Pennsylvania	9.14	9.51	7.43	7.40	6.65	8.37	6.68	7.78
Puerto Rico	.92	2.22	1.49	6.06	9.48	24.61	11.95	13.92
Rhode Island	3.51	3.31	2.38	2.65	3.36	3.36	3.52	3.90
South Carolina	2.38	1.99	2.40	2.61	2.58	2.49	1.70	2.37
South Dakota	.99	1.33	1.72	1.81	2.38	2.33	2.36	2.74
Tennessee	2.49	2.95	1.84	2.72	2.71	3.17	2.88	3.35
Texas	.74	.70	.82	.84	1.19	1.77	2.17	2.01
Utah	1.99	2.14	1.95	2.12	2.00	2.01	1.95	2.21
Vermont	2.24	2.23	2.47	4.01	2.95	2.44	2.58	2.34
Virgin Islands	.40	.54	1.33	3.03	2.14	3.48	3.27	1.14
Virginia	.72	1.92	1.41	1.60	1.78	1.74	1.85	1.57
Washington	2.96	2.52	2.69	2.75	2.45	2.43	2.48	2.54
West Virginia	.74	.95	.98	.89	1.35	1.52	1.66	1.98
Wisconsin	3.80	4.53	3.71	2.84	2.71	3.25	3.73	4.78
Wyoming	3.18	3.25	2.81	2.31	2.72	2.58	1.64	2.71

Source: Office of Child Support Enforcement.

TABLE 18.—AFDC CHILD SUPPORT COLLECTIONS PER DOLLAR OF TOTAL ADMINISTRATIVE EXPENDITURES, FISCAL YEARS 1980–1986

State	1980	1981	1982	1983	1984	1985	1986
Alabama	1.22	0.89	1.14	0.85	0.82	1.16	1.09
Alaska	.26	.32	.38	.44	.40	.43	.57
Arizona	.27	.26	.37	.25	.33	.27	.27
Arkansas	.75	.73	.64	1.01	1.08	1.20	1.43
California	1.05	1.00	1.21	1.08	1.23	1.17	1.21
Colorado	.68	.74	.90	1.17	1.02	1.06	1.11
Connecticut	2.05	2.00	2.25	1.73	1.71	1.66	1.67
Delaware	1.68	.80	.95	.69	1.66	2.02	.80
District of Columbia	.48	.42	.42	.49	.50	.59	.49
Florida	1.11	1.19	1.01	.66	1.74	1.21	.95
Georgia	1.38	1.56	1.14	1.38	1.44	1.63	1.50
Guam	.79	.72	.74	.82	.93	.95	.78
Hawaii	1.41	1.15	1.08	1.21	1.03	1.05	.98
Idaho	1.99	1.82	2.02	1.77	1.53	1.43	1.57
Illinois	1.07	.84	1.02	1.16	1.31	1.09	1.07
Indiana	1.66	1.65	1.53	2.61	2.84	2.77	3.04
Iowa	2.69	2.62	2.91	3.29	3.87	4.11	4.34
Kansas	1.35	1.37	1.67	1.50	1.73	1.75	1.35
Kentucky	.82	.72	.53	.82	.78	1.01	1.01
Louisiana	.86	.79	.88	.75	.74	.81	.80
Maine	2.78	2.54	2.28	2.86	3.01	2.97	2.85
Maryland	1.27	1.14	1.09	1.70	1.31	1.30	1.24
Massachusetts	3.12	2.68	2.44	2.04	1.81	1.68	1.61
Michigan	2.91	2.88	2.77	2.36	2.40	2.50	2.46
Minnesota	1.36	1.57	1.41	1.48	1.61	1.52	1.49
Mississippi	1.14	1.16	1.00	1.55	1.64	1.41	1.15
Missouri	.78	.88	1.63	1.27	1.52	1.69	1.32
Montana	.83	.98	1.18	1.63	1.78	2.01	1.92
Nebraska	1.56	1.30	.84	1.04	1.01	1.24	.93
Nevada	.28	.29	.48	.53	.52	.48	.67
New Hampshire	2.09	2.18	1.55	1.21	1.07	.98	.72
New Jersey	1.24	1.12	1.01	1.14	1.25	1.19	1.17
New Mexico	.76	.89	.83	.90	1.10	1.13	1.38
New York	.75	.75	.70	.79	.77	.78	.68
North Carolina	1.29	1.35	1.15	1.53	1.49	1.54	1.64
North Dakota	1.68	1.51	1.46	1.61	1.61	1.67	1.65
Ohio	1.65	1.67	1.62	1.68	1.88	1.94	2.34
Oklahoma	.40	.46	.43	.60	1.01	1.04	.99
Oregon	1.40	1.15	1.46	1.15	.98	1.44	1.39
Pennsylvania	1.35	1.25	1.18	1.10	1.48	1.13	1.40
Puerto Rico	.62	.43	.24	.27	.35	.34	.43
Rhode Island	2.52	2.29	1.90	1.97	2.11	2.09	2.20
South Carolina	2.04	2.00	2.00	2.08	1.97	1.19	1.15
South Dakota	1.29	1.19	1.22	1.81	1.80	1.73	1.64
Tennessee	.92	.64	.92	.79	.92	.72	1.03
Texas	.49	.58	.42	.72	.94	1.14	.82
Utah	1.45	1.63	1.79	1.71	1.59	1.33	1.20
Vermont	1.87	2.18	3.74	2.74	2.26	2.21	1.84
Virgin Islands	.28	.47	.82	.44	.37	.29	.22
Virginia	1.33	1.24	1.36	1.53	1.50	1.58	.87
Washington	1.51	1.63	1.66	1.56	1.54	1.40	1.44
West Virginia	.96	.92	.84	1.30	1.48	1.61	1.86
Wisconsin	2.34	2.90	2.11	1.92	2.21	2.21	2.11
Wyoming	2.29	1.93	1.63	2.12	1.76	1.06	1.67
Nationwide total	1.30	1.27	1.28	1.27	1.38	1.34	1.31

Source: Office of Child Support Enforcement.

TABLE 19.—NON-AFDC CHILD SUPPORT COLLECTIONS PER DOLLAR OF TOTAL ADMINISTRATIVE EXPENDITURES, FISCAL YEARS 1980–1986

State	1980	1981	1982	1983	1984	1985	1986
Alabama	0.00	0.00	0.00	0.09	0.30	.83	1.36
Alaska	1.82	2.13	2.30	1.97	1.99	1.83	2.04
Arizona	1.81	1.62	2.69	1.55	1.84	1.87	1.08
Arkansas	.68	.59	.53	.62	.55	.70	1.20
California	1.10	1.00	.98	.92	1.08	1.15	1.17
Colorado	.40	1.28	1.65	.98	.70	1.01	.79
Connecticut	1.99	1.78	1.67	1.56	1.65	1.73	1.82
Delaware	4.71	1.97	2.63	1.76	2.97	3.60	1.66
District of Columbia	.14	.16	.18	.22	.39	.47	.43
Florida	.16	.45	.42	.55	.69	.90	1.17
Georgia	.18	.18	.20	.25	.37	.59	1.01
Guam	.01	.20	.42	.42	.59	.51	.60
Hawaii	2.02	1.63	1.58	1.51	1.33	1.32	1.27
Idaho	.52	.42	.62	.41	.34	.49	2.01
Illinois	.11	.11	.28	.80	.99	1.04	1.33
Indiana	.26	.36	.39	.46	.44	1.02	1.77
Iowa	.69	1.09	1.40	1.64	1.82	1.81	2.43
Kansas	.31	.42	.39	.41	.59	.30	.80
Kentucky	2.26	1.73	1.54	1.74	1.96	1.67	1.51
Louisiana	1.07	1.11	1.23	1.25	1.22	1.32	1.41
Maine	.38	.51	.56	.62	.73	1.01	1.10
Maryland	1.28	1.38	2.85	3.02	2.84	2.56	2.53
Massachusetts	1.16	1.03	1.41	1.61	1.74	1.89	1.88
Michigan	7.96	7.18	3.80	4.26	4.46	5.12	5.87
Minnesota	.72	.75	.90	1.11	1.33	1.39	1.53
Mississippi	.10	.12	.12	.12	.13	.61	1.14
Missouri	.74	.82	.81	.73	1.11	1.55	2.56
Montana	.69	.62	.49	.52	.49	.45	.67
Nebraska	.30	3.35	3.70	4.62	4.68	5.08	4.52
Nevada	.98	1.04	1.02	1.09	1.39	1.55	1.43
New Hampshire	.08	.11	1.56	4.08	4.09	3.98	3.67
New Jersey	2.90	2.55	2.95	2.83	3.30	3.47	3.46
New Mexico	.34	.39	.47	.54	.62	.77	.89
New York	1.47	1.47	1.25	1.22	1.27	1.18	1.15
North Carolina	.28	.62	.85	.98	1.17	1.40	1.62
North Dakota	.43	.38	.45	.57	.70	.62	.82
Ohio	.06	.05	.05	.07	.08	1.43	2.58
Oklahoma	.19	.20	.21	.26	.35	.42	.79
Oregon	8.15	7.98	2.68	2.30	2.03	2.61	3.08
Pennsylvania	6.70	6.18	6.22	5.56	6.89	5.55	6.39
Puerto Rico	1.56	1.05	5.82	9.21	24.26	11.61	13.49
Rhode Island	.10	.09	.74	1.39	1.25	1.43	1.70
South Carolina	.39	.40	.61	.50	.52	.51	1.22
South Dakota	.38	.53	.59	.56	.53	.64	1.10
Tennessee	1.55	1.20	1.81	1.92	2.25	2.16	2.32
Texas	.19	.23	.42	.47	.83	1.03	1.19
Utah	.31	.32	.33	.29	.42	.62	1.01
Vermont	.35	.29	.27	.21	.18	.37	.50
Virgin Islands	.46	.86	2.21	1.70	3.11	2.97	1.92
Virginia	.08	.17	.24	.24	.24	.27	.70
Washington	.85	1.06	1.09	.89	.89	1.08	1.10
West Virginia	.07	.06	.05	.05	.04	.05	.12
Wisconsin	.65	.81	.73	.80	1.04	1.52	2.66
Wyoming	.96	.88	.68	.61	.82	.58	1.05
Nationwide total	1.88	1.82	1.61	1.66	1.91	1.97	2.15

Source: Office of Child Support Enforcement.

TABLE 20.—CHILD SUPPORT COLLECTIONS PER DOLLAR OF ADMINISTRATIVE EXPENDITURES, FISCAL YEAR 1986

State	Total collections/ total expenditures	AFDC collections/total expenditures	Non-AFDC collections/total expenditures
U.S. total	3.46	1.31	2.15
Alabama	2.45	1.18	1.36
Alaska	2.61	0.57	2.04
Arizona	1.34	0.27	1.08
Arkansas	2.62	1.43	1.20
California	2.38	1.21	1.17
Colorado	1.89	1.11	0.79
Connecticut	3.49	1.67	1.82
Delaware	2.46	0.80	1.66
District of Columbia	0.92	0.49	0.43
Florida	2.12	0.95	1.17
Georgia	2.52	1.50	1.01
Guam	1.38	0.78	0.60
Hawaii	2.26	0.98	1.27
Idaho	3.57	1.57	2.01
Illinois	2.40	1.07	1.33
Indiana	4.82	3.04	1.77
Iowa	6.77	4.34	2.43
Kansas	2.15	1.35	0.80
Kentucky	2.52	1.01	1.51
Louisiana	2.21	0.80	1.41
Maine	3.95	2.85	1.10
Maryland	3.77	1.24	2.53
Massachusetts	3.50	1.61	1.88
Michigan	8.33	2.46	5.87
Minnesota	3.02	1.49	1.53
Mississippi	2.29	1.15	1.14
Missouri	3.89	1.32	2.56
Montana	2.59	1.92	0.67
Nebraska	5.44	0.93	4.52
Nevada	2.10	0.67	1.43
New Hampshire	4.39	0.72	3.67
New Jersey	4.63	1.17	3.46
New Mexico	2.27	1.38	0.89
New York	1.83	0.68	1.15
North Carolina	3.26	1.64	1.62
North Dakota	2.46	1.65	0.82
Ohio	4.92	2.34	2.58
Oklahoma	1.78	0.99	0.79
Oregon	4.47	1.39	3.08
Pennsylvania	7.78	1.40	6.39
Puerto Rico	13.92	0.43	13.49
Rhode Island	3.90	2.20	1.70
South Carolina	2.37	1.15	1.22
South Dakota	2.74	1.64	1.10
Tennessee	3.35	1.03	2.32
Texas	2.01	0.82	1.19
Utah	2.21	1.20	1.01
Vermont	2.34	1.84	0.50
Virgin Islands	2.14	0.22	1.92
Virginia	1.57	0.87	0.70
Washington	2.54	1.44	1.10
West Virginia	1.98	1.86	0.12
Wisconsin	4.78	2.11	2.66
Wyoming	2.71	1.67	1.05

Source: Office of Child Support Enforcement.

TABLE 21.—INCENTIVE PAYMENTS TO STATES AND LOCALITIES FOR AFDC COLLECTIONS, FISCAL YEARS 1979–1986

[In thousands of dollars]

State	1979	1981	1982	1983	1984	1985	1986
Alabama	$801	$628	$704	$1,234	$1,578	$3,024	$1,560
Alaska	7	113	158	245	219	278	393
Arizona	79	148	157	198	254	191	570
Arkansas	247	385	412	672	634	749	755
California	13,868	9,296	13,891	13,102	30,730	31,713	21,224
Colorado	407	755	914	1,337	1,077	1,121	1,383
Connecticut	440	2,325	3,117	2,977	2,551	2,906	3,688
Delaware	23	300	294	341	420	462	484
District of Columbia	11	169	223	267	356	297	410
Florida	445	2,080	1,871	2,108	3,315	3,453	3,660
Georgia	384	1,078	1,195	1,685	1,783	2,312	1,891
Guam	403	2	2	4	3	29	41
Hawaii	234	497	413	524	706	700	678
Idaho	6	428	463	471	447	499	669
Illinois	414	1,936	2,527	2,807	2,896	2,767	5,298
Indiana	943	1,502	1,401	2,424	2,570	2,976	3,897
Iowa	1,456	2,106	2,458	3,184	2,580	2,804	3,444
Kansas	255	770	1,082	1,103	905	1,100	1,164
Kentucky	552	666	502	896	760	1,072	1,336
Louisiana	731	1,181	1,202	1,503	1,241	1,461	1,236
Maine	61	699	892	1,250	1,154	1,253	1,612
Maryland	662	2,131	2,052	3,896	2,849	3,089	3,488
Massachusetts	46	5,597	6,071	6,046	5,202	5,573	7,042
Michigan	12,815	11,550	13,717	13,408	14,522	14,582	22,500
Minnesota	1,834	2,737	4,383	3,826	3,454	3,677	5,048
Mississippi	2	59	95	310	223	366	662
Missouri	586	888	1,816	1,622	1,609	1,883	2,208
Montana	20	153	182	274	277	363	269
Nebraska	265	419	423	538	505	691	808
Nevada	74	125	186	224	175	154	402
New Hampshire	29	343	349	374	281	291	340
New Jersey	4,070	4,681	4,877	6,037	6,325	5,887	7,190
New Mexico	21	282	333	434	424	450	363
New York	8,787	7,163	8,193	10,308	8,248	9,498	10,166
North Carolina	1,021	1,724	1,898	2,801	2,528	2,809	3,922
North Dakota	191	219	251	284	276	315	277
Ohio	3,295	4,574	4,512	5,010	4,790	5,710	5,381
Oklahoma	42	326	387	547	672	787	730
Oregon	296	1,845	2,388	1,839	1,572	1,624	2,114
Pennsylvania	4,701	5,399	5,670	6,577	7,122	6,788	8,076
Puerto Rico	4	73	92	127	136	167	209
Rhode Island	53	505	552	619	570	613	1,918
South Carolina	328	354	512	698	994	1,015	1,392
South Dakota	45	118	183	378	249	227	308
Tennessee	493	568	835	782	772	716	1,192
Texas	188	1,114	959	1,609	1,602	1,878	2,950
Utah	596	1,238	1,509	1,791	1,397	730	1,911
Vermont	22	289	453	392	319	379	374
Virgin Islands	1	23	25	21	19	25	26
Virginia	262	1,130	1,502	1,728	1,414	1,658	1,473
Washington	202	2,817	3,236	3,878	3,419	3,673	4,128
West Virginia	31	389	369	492	463	538	303
Wisconsin	3,905	4,945	4,655	5,417	4,993	4,986	6,428
Wyoming	5	69	86	117	103	90	107
Nationwide total	66,255	90,911	144,781	158,098	133,682	144,781	158,098

Source: Office of Child Support Enforcement.

Status of Implementation of the 1984 Child Support Amendments

Public Law 98–378 requires States to implement a range of new enforcement techniques designed to improve the effectiveness of the child support enforcement program. Although the amendments generally took effect in October of 1985, State implementation is not complete. Tables 22 and 23, supplied by the Department of Health and Human Services, summarize the status of implementation of these requirements as of January 1, 1987.

In addition, HHS reports that 14 States have implemented all 8 mandatory enforcement techniques plus the requirement for developing uniform guidelines for support. These States are:

Alabama
Alaska
Arkansas
Georgia
Iowa
Maine
Minnesota
New Jersey
North Carolina
Oregon
South Dakota
Utah
Virginia
Washington

Twelve States and the Virgin Islands have implemented all eight mandatory enforcement techniques but have *not* developed the guidelines for support. These jurisdictions are:

Florida
Hawaii
Idaho
Indiana
Louisiana
Maryland
Michigan
Mississippi
New York
Nebraska
Oklahoma
Tennessee
Virgin Islands

Finally, four jurisdictions—Arizona, Kentucky, Montana, and Puerto Rico—have had State plans disapproved for lack of implementation of one of the requirements.

TABLE 22.—IMPLEMENTATION STATUS OF MANDATORY REQUIREMENTS OF 1984 CHILD SUPPORT ENFORCEMENT AMENDMENTS (PUBLIC LAW 98–378)

[As of January 1, 1987]

Mandatory requirements	States with statutes addressing the requirement [1]	No law [2]	Exemption granted [3]	Requirement implemented [4]
Mandatory wage withholding	53	1	.....	30
Expedited process	50	4	.....	36
State tax refund offset	44	10	10	36
Liens	54	0	.....	50
Paternity statute	53	1	.....	53
Security or bond	54	0	.....	49
Consumer credit	52	2	.....	47
Wage withholding in orders	52	2	.....	46

[1] Coverage may be incomplete. Includes States having an exemption from passing legislation.

[2] State does not have statute allowing for use of technique.
[3] State has received a statewide exemption from implementing the requirement.
[4] Includes States having an exemption to operate a similar existing procedure.

TABLE 23.—IMPLEMENTATION STATUS OF OTHER REQUIREMENTS OF 1984 CHILD SUPPORT ENFORCEMENT AMENDMENTS (PUBLIC LAW 98–378)

[As of January 1, 1987]

Other requirements	Implementation planned	Requirement implemented
Non-AFDC application fee	1	53
Notice to AFDC recipients	1	53
Late payment fees (optional)	0	4
Passthrough of incentive payments (optional for some States)	0	38
Continuation of services	0	54
Enforcement for foster care [1]	0	51
Spousal support	1	53
Services publicized	0	54
State commissions	0	[2] 41
Medical support in orders	8	46
Extension of Medicaid eligibility	4	50
Child support guidelines	24	[3] 30
Non-AFDC Federal tax offset	0	54

[1] Excludes Guam, Puerto Rico and the Virgin Islands.
[2] Reported to Governor/11 waivers (Pennsylvania, Virgin Island reports not received).
[3] Have some guidelines (may not fully comply).

Legislative Changes in the 99th Congress

During the second session of the 99th Congress, Public Law 99–509 was enacted. Titled the Omnibus Budget Reconciliation Act of 1986, the new law included one child support enforcement amendment prohibiting the retroactive modification of child support awards. Under this new requirement, State laws must provide for either parent to apply for modification of an existing order with notice provided to the other parent. No modification is permitted before the date of this notification.

LEGISLATIVE CHANGES IN THE 98TH CONGRESS

In November 1983, the House of Representatives adopted H.R. 4325, the Child Support Enforcement Amendments, which had been developed by the Subcommittee on Public Assistance and Unemployment Compensation and approved by the Committee on Ways and Means. In August 1984, the amendments were signed into law. The new law strengthens the child support enforcement and paternity establishment program. It requires States to implement effective enforcement tools and provides incentives to the States to make available services to both AFDC and non-AFDC families. The main provisions of the Child Support Enforcement Amendments of 1984 (P.L. 98-378) are summarized below:

1. Improved child support enforcement through requiring State laws and procedures.—States are required to enact laws establishing the following procedures with respect to their IV-D cases:

A. Mandatory wage withholding for all families (AFDC and non-AFDC) if support payments are delinquent in an amount equal to 1 month's support. States must also allow absent parents to request withholding at an earlier date.

B. Imposing liens against real and personal property for amounts of overdue support.

C. Withholding of State tax refunds payable to a parent of a child receiving IV-D services, if the parent is delinquent in support payments.

D. Making available information regarding the amount of overdue support owed by an absent parent, to any consumer credit bureau, upon request of such organization.

E. Requiring individuals who have demonstrated a pattern of delinquent payments to post a bond, or give some other guarantee to secure payment of overdue support.

F. Establishing expedited processes within the State judicial system or under administrative procedures for obtaining and enforcing child support orders, and, at the option of the State, for determining paternity.

G. Notifying each AFDC recipient at least once each year of the amount of child support collected on behalf of that recipient.

H. Permitting the establishment of paternity until a child's 18th birthday.

I. At the option of the State, providing that child support payments must be made through the agency that administers the State's income withholding system if either the custodial or noncustodial parent requests that they be made in this manner.

2. Federal matching of administrative costs.—The Federal matching share is gradually reduced from 70 percent as follows: 68 percent in fiscal years 1988 and 1989, and 66 percent in fiscal year 1990 and each year thereafter.

3. Federal incentive payments.—The prior incentive formula which gave States 12 percent of their AFDC collections (paid for out of the Federal share of the collections) is replaced with a new formula that is designed to encourage States to develop programs that emphasize collections on behalf of both AFDC and non-AFDC families, and to improve program cost effectiveness. The basic incentive payment will be equal to 6 percent of the State's AFDC col-

lections, and 6 percent of its non-AFDC collections. States may qualify for higher incentive payments, up to a maximum of 10 percent of collections, if their AFDC or non-AFDC collections exceed combined administrative costs for both AFDC and non-AFDC components of the program.

The total dollar amount of incentives paid for non-AFDC families may not exceed the amount of the State's incentive payment for AFDC collections for fiscal years 1986 and 1987. However, thereafter the incentive paid for non-AFDC collections will be capped at an amount equal to 105 percent of the incentive for AFDC collections in fiscal year 1988, 110 percent in fiscal year 1989, and 115 percent in fiscal year 1990 and any fiscal year thereafter.

4. Matching for automated management systems used in income withholding and other procedures.—The Act specifies that the 90 percent Federal matching rate that is currently available to States that elect to establish an automatic data processing and information retrieval system may be used, at the option of the State, for the development and improvement of the income withholding and other procedures required in the new law through the monitoring of child support payments, the maintenance of accurate records regarding the payment of child support, and the provision of prompt notice to appropriate officials with respect to any arrearages that occur. Also, the Act specifies that the 90 percent matching is available to pay for the acquisition of computer hardware.

5. Fees for services to non-AFDC families.—States will be required to charge an application fee for non-AFDC cases not to exceed $25. The amount of the maximum allowable fee may be adjusted periodically by the Secretary to reflect changes in administrative costs. The State may charge the fee against the custodial parent, pay the fee out of State funds, or recover the fee from the noncustodial parent.

In addition, at the option of the State, a late payment fee equal to between 3 and 6 percent of the amount of overdue support may be charged to the noncustodial parents of AFDC and non-AFDC families. The State may not take any action which would have the effect of reducing the amount of support paid to the child and will collect the fee only after the full amount of the support has been paid to the child. The late payment fee provision is effective upon enactment.

6. Continuation of support enforcement for AFDC recipients whose benefits are being terminated.—States must provide that families whose eligibility for AFDC is terminated due to the receipt of (or an increase in) child support payments will be automatically transferred from AFDC to non-AFDC status under the IV-D program, without requiring application for IV-D services or payment of a fee.

7. Special project grants to promote improvement in interstate enforcement.—The Secretary is authorized to make demonstration grants to States which propose to undertake new or innovative methods of support collection in interstate cases. The authorization is $7 million in FY 1985, $12 million in FY 1986, and $15 million in FY 1987 and years thereafter.

8. Periodic review of State programs; modification of penalty.—The Director of the Federal Office of Child Support Enforcement is

required to conduct audits at least every 3 years to determine whether the standards and requirements prescribed by law and regulations have been met. Under the penalty provision, a State's AFDC matching funds must be reduced by an amount equal to at least 1 but no more than 2 percent for the first failure to comply substantially with the standards and requirements, at least 2 but no more than 3 percent for the second failure, and at least 3 but no more than 5 percent for the third and any subsequent consecutive failures.

9. Extension of sec. 1115 demonstration authority to the child support program.—The sec. 1115 demonstration authority is expanded to include the child support enforcement program under specified conditions.

10. Child support enforcement for certain children in foster care.—State child support agencies are required to undertake child support collections on behalf of children receiving foster care maintenance payments under title IV-E, if an assignment of rights to support to the State has been secured by the foster care agency. In addition, foster care agencies are required to take steps, where appropriate, to secure an assignment to the State of any rights to support on behalf of a child receiving foster care maintenance payments under the title IV-E foster care program.

11. Collection of spousal support.—Child support enforcement services must include the enforcement of spousal support, but only if a support obligation has been established with respect to the spouse, the child and spouse are living in the same household, and child support is being collected along with spousal support.

12. Modification in content of annual report by the Secretary.—The present annual report information requirements are expanded to include data needed to evaluate State programs.

13. Requirement to publicize the availability of child support services.—States must frequently publicize, through public service announcements, the availability of child support enforcement services, together with information as to the application fee for such services and a telephone number or postal address to be used to obtain additional information.

14. State commissions on child support.—The Governor of each State is required to appoint a State Commission on Child Support. The Commission must include representation from all aspects of the child support system including custodial and non-custodial parents, the IV-D agency, the judiciary, the Governor, the legislature, child welfare and social services agencies, and others.

Each State commission is to examine the functioning of the State child support system with regard to securing support and parental involvement for both AFDC and non-AFDC children, including but not limited to such specific problems as: (1) visitation; (2) establishment of appropriate objective standards for support; (3) enforcement of interstate obligations; and (4) additional Federal and State legislation needed to obtain support for all children.

15. Requirement to include medical support as part of any child support order.—The Secretary of Health and Human Services is required to issue regulations to require State agencies to petition to include medical support as part of any child support order whenever health care coverage is available to the absent parent at a rea-

sonable cost. The regulations must also provide for improved information exchange between the State IV-D agencies and the medicaid agencies with respect to the availability of health insurance coverage.

16. Increased availability of Federal parent locator services to State agencies.—The prior law requirement that the States exhaust all State child support locator resources before they request the assistance of the Federal Parent Locator Service is repealed.

17. Extension of medicaid eligibility when support collection results in termination of AFDC eligibility.—If a family loses AFDC eligibility as the result (wholly or partly) of increased collection of support payments under the IV-D program, the State must continue to provide medicaid benefits for 4 calendar months beginning with the month of ineligibility. (The family must have received AFDC in at least 3 of the 6 months immediately preceding the month of ineligibility.)

18. Guidelines for determining support obligations.—Each State must develop guidelines to be considered in determining support obligations.

19. Availability of social security numbers for purposes of child support enforcement.—The absent parent's social security number may be disclosed to child support agencies both through the Federal Parent Locator Service and by the IRS.

20. Collection of overdue support from Federal tax refunds.—Current law requires the Secretary of the Treasury, upon receiving notice from a State child support agency that an individual owes past due support which has been assigned to the State as a condition of AFDC eligibility, to withhold from any tax refunds due that individual an amount equal to any past due support. The act extends this requirement to provide for withholding of refunds on behalf of non-AFDC families, under specified conditions.

21. Wisconsin child support initiative.—The Secretary of HHS is required to grant waivers to the State of Wisconsin to allow it to implement its proposed child support initiative in all or parts of the State as a replacement for the AFDC and child support programs. The State must meet specified conditions and give specific guarantees with respect to the financial well-being of the children involved.

22. Sense of the Congress that State and local governments should focus on the problems of child custody, child support, and related domestic issues.—The act incorporates the language of S. Con. Res. 84 urging State and local governments to focus on the vital issues of child support, child custody, visitation rights, and other related domestic issues that are within the jurisdictions of such governments.

Cost estimates for the major provisions of Public Law 98-378 appear below:

TABLE 24.—CBO ESTIMATES FOR CHILD SUPPORT ENFORCEMENT AMENDMENTS OF 1984 (PUBLIC LAW 98–378)

	Fiscal year—				
	1984	1985	1986	1987	Total
Alter incentive payments to States			15	15	30
Reduce Federal matching to 68 percent in fiscal year 1988; 66 percent in fiscal year 1990					0
Require application fees; optional late payment fees		−5	−10	−10	−25
Mandate State enforcement techniques		−15	−25	−25	−65
Require IRS tax intercept for non-AFDC families thru fiscal year 1989		25	20	10	155
Authorize funds for interstate projects		7	12	15	34
Provide Medicaid for 4 months for families losing AFDC due to child support collection through fiscal year 1988	5	25	25	30	85
Other provisions		15	20	10	45
Impact of H.R. 4325 on CSE case levels:					
CSE expenditures		10	30	55	95
Offsetting effects on public assistance		−5	−20	−30	−55
Total	5	57	67	70	199

Note: The cost of disregarding the first $50 of child support payments is shown in the AFDC section.

The Tax Reform Act of 1984 (Public Law 98–369) was also enacted during the 98th Congress and included two tax provisions pertaining to alimony and child support.

Under prior law, alimony was deductible by the payor and includible in the income of the payee. The new law revises the rules relating to the definition of alimony. Generally, only cash payments that will terminate on the death of the payee spouse will qualify as alimony. Alimony payments, if in excess of $10,000 per year, generally must be payable for at least 6 years and must not decline by more than $10,000. The prior law requirement that the payment be based on a legal support obligation has been repealed and payors are now required to furnish to the IRS the social security number of the payee spouse. A $50 penalty for failure to do so will be imposed. The provision is effective for divorce or separation agreements or orders executed after 1984.

The new law also provides that the $1,000 dependency exemption for a child of divorced or separated parents generally will be allocated to the custodial parent unless the custodial parent signs a written declaration that he or she will not claim the exemption for the year. Each parent may claim the medical expenses that he or she pays for the child, for purposes of computing the medical expense deduction. The provision is effective for taxable years beginning after 1984.

LEGISLATIVE CHANGES IN THE 97TH CONGRESS

The 97th Congress enacted child support legislation in 1981 and 1982 which had the effect of reducing Federal outlays, as shown below. Estimates for savings were made by the Congressional Budget Office.

Changes included in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) and the Tax Equity and Fiscal Responsibility Act of 1983 (Public Law 97-248) are:

TABLE 25.—CBO ESTIMATES FOR PUBLIC LAW 97-35 AND PUBLIC LAW 97-248

[In millions of dollars]

Provision	Fiscal year—				
	1982	1983	1984	1985	1986
Public Law 97-35:					
Collection of past-due child and spousal support from Federal tax refunds	−55	−70	−75	−75	−75
Collection of support for certain spouses	−20	−20	−20	−20	−20
Require absent parents to pay fee for services to non-AFDC families	0	0	0	0	0
Child support obligations owed on behalf of AFDC families not discharged in bankruptcy	−15	−18	−23	−29	−36
Require States to intercept unemployment benefits to enforce child support obligations	−17	−17	−17	−17	−17
Total	−107	−125	−135	−141	−148

	Fiscal year—				
	1983	1984	1985	1986	1987
Public Law 97-248:					
Give States the option of imposing a fee for services to non-AFDC families	−12	−16	−11	−13	−14
Require allotments from pay for support owed by members of the uniformed services	−7	−9	−10	−10	−10
Reimbursement of State agency in initial month of ineligibility for AFDC	−3	−4	−4	−5	−5
Reduce Federal incentive payments and Federal matching percentage	−40	−91	−101	−111	−116
Total	−62	−120	−126	−139	−145

APPENDIX I. FOOD STAMP PROGRAM

The food stamp program is designed to increase the food purchasing power of low-income households to a point where they can buy a nutritionally adequate low-cost diet. The theory behind the program is that a participating household is expected to be able to devote 30 percent of its countable [1] cash income to food, with food stamp benefits making up the difference between that amount and the sum determined to be sufficient to buy an adequate low-cost diet; i.e., the cost of the Department of Agriculture's "Thrifty Food Plan." Thus, an eligible household with no countable cash income receives the maximum monthly food stamp allotment for its size (benefits also vary by household size), while one with some countable cash income receives a lesser allotment—reduced from the maximum at the rate of 30 cents for each dollar of countable cash income. Food stamp benefits are available to nearly all households meeting the *income and liquid assets eligibility tests,* as long as certain household members fulfill employment-related requirements. Further, households composed entirely of Aid to Families with Dependent Children (AFDC) or Supplemental Security Income (SSI) recipients are automatically eligible for food stamps, without regard to the food stamp income and assets tests.

Administration and Funding

The food stamp program operates in all 50 States, the District of Columbia, the Virgin Islands and Guam.[2] Through June 1982, it also operated in Puerto Rico. However, in July 1982, the program was legislatively terminated and replaced by a nutrition assistance program designed by the Commonwealth and federally funded with an annual block grant; this program provides cash benefits somewhat smaller than food stamp benefits to about 1.4 million persons.[3] The Federal Government, under the authority of the Food Stamp Act of 1977, establishes the rules that govern the program and, with certain minimal variations for Alaska, Hawaii and the territories, they are nationally uniform. States may opt to offer the

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[1] Not all of a household's income is actually counted when determining its food stamp benefits. In effect, this means that the program assumes households can spend about 20–25 percent of their *gross* cash income on food.

[2] The Commonwealth of the Northern Mariana Islands operates a specially designed variant of the food stamp program, with benefit and eligibility rules roughly comparable to those in the 48 States and the District of Columbia, though simplified and somewhat more restrictive. In addition, certain controls are placed on the use of food stamp benefits in order to encourage the production and purchase of local commodities.

[3] The Commonwealth of Puerto Rico's nutritional assistance program provides cash benefits to low-income residents using eligibility tests that are more restrictive than those of the food stamp program. Benefit levels are about 25 percent lower than regular food stamp benefit amounts. For fiscal years 1987 through 1990, the nutritional assistance block grant is to be increased, in stages, from $852,750,000 in fiscal year 1987 to $936,750,000 in fiscal year 1990.

program or not; but, if a State chooses to offer it, it must offer the program throughout the State.[4]

At the Federal level, the program is administered by the U.S. Department of Agriculture's Food and Nutrition Service, which gives direction, through Federal regulations, to States and localities in their administrative tasks, is responsible for the printing and distribution of stamps to the States, and oversees participation by retail food stores and other food outlets. Other Federal involvement includes the Federal Reserve System, through which food stamps deposited in financial institutions by food outlets are redeemed and converted to cash, and the Treasury Department and the Social Security Administration, which provide some information used in verifying receipts' income and assets. At the State and local levels, it is administered, along with the AFDC program, by welfare departments, which are responsible for determining eligibility and issuing benefits.[5]

TABLE 1.—RECENT FOOD STAMP EXPENDITURES

[In millions]

Fiscal year	Benefit expenditures (Federal)	Administrative costs		Total
		Federal [1]	State/local [2]	
1979	$6,480	$515	$388	$7,383
1980	8,685	503	375	9,563
1981	10,630	678	504	11,812
1982 [3]	10,408	709	557	11,674
1983 [4]	11,955	779	613	13,347
1984 [4]	11,496	974	808	13,278
1985 [5]	11,556	1,043	871	13,470
1986 (estimated) [6]	11,426	1,110	940	13,476

[1] Includes all Federal administrative costs associated with the Food Stamp program, including Federal matching of State and local costs and those costs attributed to budget accounts other than the food stamp account.

[2] Estimated.

[3] Includes spending for Puerto Rico's nutrition assistance block grant, which began operation in the last quarter of fiscal year 1982: estimated at $200 million for benefits and $6.5 million each for Federal and Commonwealth administrative spending.

[4] Includes spending for Puerto Rico's nutrition assistance block grant: estimated at $800 million for benefits (including special agricultural projects) and $25 million each for Federal and Commonwealth administrative spending.

[5] Includes spending for Puerto Rico's nutrition assistance block grant: $803.5 million for benefits (including special agricultural projects) and $21.5 million each for Federal and Commonwealth administrative spending.

[6] Includes spending for Puerto Rico's nutrition assistance block grant: estimated at $800 million for benefits and $20 million each for Federal and Commonwealth administrative spending.

Note: Figures presented in this table have been revised, as compared to similar tables presented in earlier versions of this print, to reflect more recent spending information.

[4] Under the terms of the Food Security Act of 1985, States may not operate a program if sales taxes are charged on food stamp purchases. This prohibition is scheduled to be fully effective by the end of fiscal year 1987.

[5] With the Department of Agriculture's approval, Indian tribes may administer the food stamp program on reservations and Indian lands. In certain cases, social security district offices may provide intake services for applicants who are also supplemental security income (SSI) or social security recipients.

The Food Stamp Act provides for 100 percent Federal funding of food stamp benefits.[6] Federal funds also pay Federal administrative costs and 50 percent of most State and local administrative costs.[7] State and local costs associated with computerization and fraud control activities are eligible for 75 percent Federal funding. Administrative costs not borne by the Federal Government are shared by States and localities according to State law.

ELIGIBILITY

The food stamp program generally imposes three major tests for eligibility: monthly income limits; liquid assets limitations; and employment-related requirements. Households in which all members receive Aid to Families with Dependent Children (AFDC) or Supplemental Security Income (SSI) are automatically ("categorically") eligible for food stamps, as long as they meet food stamp employment-related requirements and certain other food stamp rules.

The food stamp household

Generally, all individuals living together and purchasing food and preparing meals in common constitute a food stamp "household" and must apply together; the income and assets of all household members are aggregated in determining eligibility and benefits, and, when judging whether all household members receive cash welfare (AFDC or SSI) for automatic eligibility purposes, the food stamp household definition is used. However, individuals who live together may, in some cases, apply as separate "households" and have only their income and assets considered in determining their eligibility and benefits. The basic rule is that those who purchase food and prepare meals apart from the rest of their residential unit may apply separately. This rule is modified by: (1) a requirement that, except for elderly and disabled individuals,[8] parents, children, and siblings apply together without regard to the "purchase and prepare" rule; (2) a requirement that individuals living in treatment programs for drug addicts or alcoholics, certain small group homes for the disabled, shelters for battered women and children, and shelters for the homeless be treated as separate households without regard to the "purchase and prepare" rule; and (3) an exception providing that elderly individuals who cannot purchase food and prepare meals because of a substan-

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[6] In Puerto Rico, Federal funds pay for 100 percent of the benefit costs of its nutritional assistance program and 50 percent of any Commonwealth administrative costs—up to the amount of the annual block grant.

[7] As an incentive for improved administration, a State qualifies for a matching rate of 60 percent if it reduces its rate of erroneous payments and under issuances below 5 percent of benefits issued and has very low rates of improper denials. In addition, a State may lose a portion or all of its Federal share of administrative expenses if it does not meet certain legislatively established targets for reducing its rate of erroneous payments to 5 percent.

[8] In the food stamp program, "elderly" is defined as age 60 or older. "Disabled" is defined as being in receipt of disability payments under social security or SSI programs, and includes certain severely disabled veterans and their disabled survivors, and some disability retirement annuitants.

[9] The definition of disability for this purpose is significantly more limited than the one generally used for food stamp purposes.

remainder of their residential unit has gross monthly income below certain federally prescribed levels.

Income

In determining eligibility for most households, the Food Stamp program looks at a household's monthly income.[10] Further, it considers both gross and countable monthly income.

Gross income includes all cash income of the household, except for: certain payments made to third parties (rather than directly to the household); small amounts of irregularly received income; loans; income received for the care of someone outside the household; income earned by schoolchildren; nonrecurring lump-sum payments such as income tax refunds (counted as assets); energy assistance; a portion of student aid; child support payments to AFDC recipients up to $50 a month (at State option and cost); and certain other income required to be disregard by other Federal laws.

Countable income for households without an elderly or disabled member (see footnote 8) subtracts from gross income the following: (1) an inflation indexed standard deduction now standing at $99 per month, regardless of household size;[11] (2) 20 percent of any earned income, in recognition of taxes and work expenses; (3) any work or training-related expenses for the care of a dependent, up to a ceiling of $160 per houshold per month; and (4) any shelter expenses, to the extent they exceed 50 percent of the countable income remaining after all other potential deductions and excluded expenses have been subtracted out, but not in excess of an inflation indexed ceiling ($149 per household per month).[12]

Countable income for households having an elderly or disabled member (see footnote 8) subtracts from gross income the following: (1) an inflation indexed standard deduction now standing at $99 per month, regardless of household size (see footnote 11); (2) 20 percent of any earned income; (3) any work or training-relating expenses for the care of a dependent, up to a ceiling of $160 per household per month; (4) out-of-pocket medical expenses of elderly or disabled household members, to the extent they exceed $35 per month; and (5) any shelter expenses, to the extent they exceed 50 percent of the countable income remaining after all other potential deductions and excluded expenses have been subtracted out (with no limit).

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[10] At application, a household's current income is considered. However, for many households, their most recently reported prior month's income is used to set benefits during their period of eligibility. In some cases, annual income is converted to a monthly basis (e.g., where income for a whole year is actually received in a few months).

[11] Inflation indexing of the standand deduction occurs each October. Standard deduction amounts vary for Alaska, Hawaii, the Virgin Islands, and Guam; see table 2.

[12] Inflation indexing of this ceiling occurs each October. The ceiling varies for Alaska, Hawaii, the Virgin Islands, and Guam; see table 2.

TABLE 2.—FOOD STAMP DEDUCTION LEVELS

[Through September 1987]

	48 States and D.C.	Alaska	Hawaii	Virgin Islands	Guam
Monthly standard deduction	$99	$169	$140	$87	$198
Monthly ceiling on shelter expense deductions	149	260	213	111	182
Monthly ceiling on dependent care deductions	160	160	160	160	160

In order to qualify for food stamps, all households must have countable monthly income (as calculated with regard to whether or not they have elderly or disabled members) below the Federal poverty levels (see table 3). These poverty levels are adjusted each July to reflect inflation as measured by the Consumer Price Index. In addition, households without an elderly or disabled member must have gross monthly income below 130 percent of the Federal poverty levels (see table 3), also adjusted for inflation each July.

The current limits on countable and gross income in the 48 contiguous States, the District of Columbia, the Virgin Islands, and Guam[13] are as follows, through June 1987:

TABLE 3.—COUNTABLE AND GROSS INCOME ELIGIBILITY LIMITS

[Through June 1987]

Household size	Countable income limits (per month)	Gross income limits (per month)
1 person	$447	$581
2 persons	604	785
3 persons	760	988
4 persons	917	1,192
5 persons	1,074	1,396
6 persons	1,230	1,599
7 persons	1,387	1,803
8 persons	1,544	2,007
Each additional member	+157	+204

Assets

Eligible households not qualifying under automatic eligibility rules for AFDC and SSI recipients must also have liquid assets not exceeding $2,000, or $3,000 in the case of households with elderly members. This liquid assets limit excludes the value of a residence,

[13] Limits are higher in Alaska and Hawaii, by 25 and 15 percent, respectively.

a portion of the value of motor vehicles, business assets, household belongings, and certain other resources.

Employment-related requirements [14]

In order to maintain eligibility, non-working, able-bodied adult household members must register for work, and accept suitable employment if offered. Exceptions are provided for: those caring for dependents (disabled or under age 6); those subject to another program's employment requirements; those working at least 30 hours a week (or earning the minimum-wage equivalent); the limited number of post-secondary students who are otherwise eligible; residents of drug addiction or alcoholic treatment programs; those under age 16 or age 60 or older; and those between 16 and 18 if they are not the head of a household or are attending school or a training program. A limited exception, from having to accept employment, is provided for those responsible for the care of a child between 6 and 12 for whom adequate child care is not available.

Work registrants, unless exempted as noted above, may also be required to fulfill employment-related requirements imposed by each State. These may include workfare obligations, job search requirements, or other employment-related or training requirements.

Failure to fulfill employment-related requirements disqualifies the entire household if the head of household fails to comply. In other cases, failure to comply disqualifies the violating household member.

Other limitations

Categorical eligibility restrictions include: (1) a ban on eligibility for households in which the primary wage-earner has voluntarily quit a job without good cause, for 90 days from the date of the voluntary quit; (2) a ban on eligibility for households containing striking members, unless eligible prior to the strike; (3) a ban on eligibility for most non-working post-secondary students without families; (4) a ban on eligibility for illegally or temporarily resident aliens and rules limiting eligibility for legally present aliens with sponsors; (5) a ban on eligibility for persons living in institutional settings, except for those in special small group homes for the disabled, persons living in drug addiction or alcoholic treatment programs, persons in temporary shelters for battered women and children, and shelters for the homeless; and (6) a ban on eligibility for SSI recipients in California and Wisconsin.[15]

Under these eligibility rules, it is estimated that over 30 million persons are eligible for food stamps, nationwide, at any point during the year.

Benefits

Food stamp benefits are a function of household size, countable monthly income, the cost of purchasing food using the Department of Agriculture's "Thrifty Food Plan," and, in some cases, geo-

[14] These employment-related requirements reflect food stamp law as amended by P.L. 99–198, effective on implementation in 1987.

[15] Cash SSI payments have been increased in these States to include an estimated value for food stamp benefits.

graphical location. Maximum monthly allotments equal the cost of the Agriculture Department's Thrifty Food Plan, adjusted for household size and, in some instances, geographical location,[16] and indexed periodically for changes in food prices.[17] A participating household's actual monthly allotment is determined by subtracting, from the maximum for that household's size and location, an amount equal to 30 percent of its countable monthly income—on the assumption that it can afford to spend that much of its own income on food purchases, with the Food Stamp program supplementing its purchasing power to the extent necessary to buy an adequate low-cost diet. In determining benefits, the same countable income calculated when judging eligibility is used.

Maximum monthly food stamp allotments, from which 30 percent of a household's monthly countable income is taken to determine a household's actual benefit, are as follows:

TABLE 4.—MAXIMUM MONTHLY FOOD STAMP ALLOTMENTS

[Through September 1987]

Household size	48 States and D.C.	Alaska [1]	Hawaii	Virgin Islands	Guam
1 person	$81	$111	$128	$104	$120
2 persons	149	204	234	192	220
3 persons	214	293	336	275	315
4 persons	271	372	426	349	400
5 persons	322	442	506	415	475
6 persons	387	530	608	498	571
7 persons	428	586	672	550	631
8 persons	489	670	768	629	721
Each additional person	+61	+84	+96	+79	+90

[1] These allotment levels are for urban Alaska. Benefit levels for rural Alaska are increased by about 40 percent to account for higher food prices in rural areas.

Households with no countable income receive the maximum monthly allotment for their household size, and households with some countable income receive the maximum allotment reduced by 30 percent of their countable, not gross, income. Monthly benefits are expected to average over $45 per person in fiscal year 1987.

Minimum monthly allotments vary by household size, type of income, and the extent to which deductions from gross income are claimed. In some cases, income eligibility limits are exceeded before the allotment value is reduced to zero. In these cases, minimum benefits most often range from $10 to $80 per month. In other cases, the benefit is reduced to zero before income eligibility limits are exceeded.

[16] Maximum allotments vary for Alaska, Hawaii, the Virgin Islands, and Guam, because of food costs that differ substantially from those in the 48 contiguous States and the District of Columbia.

[17] Indexed annually, each October, to reflect the change in food prices since the last adjustment.

Food stamp benefits are issued monthly. The local welfare agency must either deny eligibility or make food stamps available within 30 days of application and must provide food stamps without interruption if an eligible household reapplies in a timely manner. Households in immediate need because of little or no income and very limited cash assets are required to be treated on an expedited (5-day service) basis. Benefits are issued in three ways: (1) the welfare office may issue the eligible household an "Authorization to Participate" (ATP) document which it then takes to a bank, post office, or other issuing point to pick up its food stamp allotment; (2) the household may be asked to come into the welfare office to pick up its food stamp allotment; or (3) the welfare agency may mail the household its monthly allotment. In some pilot areas, benefits may be issued in cash to elderly or disabled households, or in standardized amounts to other (e.g., AFDC) cash welfare recipients.

Use of Food Stamps

Typically, participating households use their allotment in grocery stores that have been approved to accept food stamps. To be approved, a store must demonstrate that 50 percent of its food sales are staple foods. In addition, wholesalers may be approved to accept food stamps from retailers in certain instances, and meal service programs of various types may be approved to accept food stamps for meals. Once they have accepted food stamps, retailers, wholesalers, and approved meal service programs deposit them in banks, where they convert immediately to cash and are eventually redeemed, through the Federal Reserve System, by the U.S. Treasury.

Food stamps are issued in booklets and in several denominations, the lowest of which is $1. When change is necessary, all change of $1 or more must be in food stamps; change of 99 cents or less is in cash.

Interaction With Cash Assistance Programs

The food stamp program is intertwined with cash assistance programs in two ways: it is administratively linked to cash assistance at the State and local level and its recipient population is, by and large, made up of government aid recipients.

At the State and local level, the food stamp program is, for most recipients, administered by the same welfare offices and personnel that administer, under different rules, cash assistance such as AFDC and General Assistance. For most SSI recipients, the Social Security Administration's offices provide limited intake services for the Food Stamp program.

Less than 20 percent of food stamp households rely solely on nongovernmental sources for their income, although nearly 40 percent have some income from these sources: earnings, private retirement income, alimony, and dividends and interest. The AFDC program contributes to the income of 40 percent of food stamp households, and for almost three-fourths of these households AFDC is their only source of income. Some 20 percent of food stamp households receive social security disability or retirement income, and about

one-third of them rely entirely on that income. SSI payments are made to 20 percent of food stamp households, one-fourth of whom have no other income. State and local general assistance is received by 10 percent of food stamp households. Thus, for most persons participating in the food stamp program, food aid represents a second or third form of government payment.

Legislative Action: 1981–1982

The 97th Congress acted three times to hold down costs of the food stamp program and revise administrative rules: The Omnibus Budget Reconciliation Act of 1981; the Agriculture and Food Act of 1981; and the Omnibus Budget Reconciliation Act of 1982. The Congressional Budget Office (CBO) has estimated these actions held food stamp spending for fiscal year 1982 through fiscal year 1985 nearly $7 billion (or 13 percent) below what would have been spent under pre-1981 law: down $1.5 billion in fiscal year 1982; $1.3 billion in fiscal year 1983; $2 billion in fiscal year 1984; and $2.1 billion in fiscal year 1985.

In addition to numerous changes in administrative rules and actions aimed at reducing fraud and abuse, the cost-saving measures enacted in the 97th Congress consisted primarily of:

Delaying various inflation indexing adjustments that would have increased benefits (for example, no benefit indexing occurred in fiscal year 1982);

Reducing the maximum benefit guarantee to 99 percent (rather than 100 percent) of the cost of purchasing food in the Agriculture Department's Thrifty Food Plan, thereby slightly reducing potential benefits to all recipients (a loss of between $1 and $4 per household per month in the fiscal year 1983 inflation indexing of benefits, for example);

Reducing first-month benefits by prorating them according to the date when a household applies or reapplies;

Changing the rules governing how benefit calculations are rounded off;

Placing a gross income eligibility ceiling of 130 percent of the Federal poverty levels on all households except those with elderly or disabled members;

Replacing the food stamp program in Puerto Rico with an $825-million-a-year nutritional assistance block grant;

Reducing benefits slightly for those with earned income by counting more of their income;

Substantially eliminating eligibility for most strikers and postsecondary students;

Reducing benefits based on estimated household shelter expenses for some recipients;

Allowing States or localities to set up food stamp "workfare" programs;

Setting specific targets for States to meet in reducing the rate of erroneous benefit payments, with penalties for States that do not meet their targets; and

Requiring that many food stamp recipients report monthly on their income and other circumstances, and that States use a

recent *prior* month's income in determining benefits rather than projecting benefits based on *current* income.

These actions did *not* cause a direct reduction in benefits for most food stamp households, although they delayed or lowered benefit increases scheduled under previous law. However, some 1 million persons did lose eligibility, and recipients are losing some benefits because of the implementation of rules governing treatment of shelter expenses and earnings, the monthly reporting/prior-month accounting system, certain new administrative rules, and limited funding for Puerto Rico block grant.

Legislative Action: 1983–1984

The 98th Congress made few significant revisions to food stamp law in 1983 and 1984:

—In Public Law 98–204, some of the Federal requirements for monthly reporting and retrospective budgeting (MRRB) in administering benefits for food stamp recipients were loosened and the Agriculture Department's authority to waive MRRB requirements was greatly increased;

—In the Deficit Reduction Act of 1984 (Public Law 98–369), the ability of State welfare agencies to verify recipients' income and assets through the use of Internal Revenue Service information on unearned income was expanded, and recouping overissued benefits by "intercepting" Federal income tax refunds was permitted; and

—In Public Law 98–473, an across-the-board 1-percent benefit increase was enacted, effective November 1984.

Legislative Action: 1985

In 1985, the Food Security Act (Public Law 99–198) significantly liberalized food stamp benefit and eligibility rules, and added a requirement that all States implement employment-related requirements for food stamp recipients. The Act also extended the authorization for food stamp appropriations through fiscal year 1990, with annual dollar limits rising from $13 billion in 1986 to $16 billion in 1990. The provisions affecting programs under the Food Stamp Act (including Puerto Rico's nutritional assistance block grant) are expected to add between $500 million and $1.1 billion in new spending over the next 5 years.

Major *new initiatives* in the 1985 legislation included:

—A requirement that States set up an employment and training program of their own design for employable food stamp recipients (including workfare, job search, and training as options);

—Provisions encouraging States to computerize food stamp program operations;

—A prohibition on the collection of sales taxes on food stamp purchases;

—A requirement that households composed entirely of AFDC or SSI recipients be judged automatically eligible for food stamps;

—A prohibition against banks charging fees to retailers for handling food stamps, as long as certain requirements are met;

—An expansion of existing pilot project authority for States and localities to use simplified application and standardized benefit

procedures for AFDC, SSI, and Medicaid recipients in the food stamp program;
—Permission for States to disregard the first $50 a month of child support payments as income for food stamp purposes, if the State pays for food stamp benefit cost of doing so; and
—A 6-month moratorium on collecting fiscal sanctions owed by States for high rates of erroneous payments, and a required study of the food stamp quality control system;

Provisions *increasing benefits* in the 1985 legislation included:
—An increase in the earned income deduction from 18 to 20 percent, thereby increasing benefits for those with earnings;
—Provisions significantly increasing the degree to which high shelter costs and dependent-care expenses are taken into account in determining benefits, thereby raising benefis for those with these expenses;
—Provisions expanding the definition of "disabled person" for food stamp purposes, thereby increasing benefits to some not previously classified as disabled by extending to them the special treatment given the elderly and disabled; and
—Increases in the nutritional assistance block grant to Puerto Rico over the next 5 years.

Eligibility liberalizations enacted included:
—Increases in the dollar limits on assets that can be held by eligible households;
—Exclusion of assets having liens against them;
—Liberalization of the treatment of assets of those who are self-employed;
—Liberalization of rules governing disqualification of persons failing to fulfill employment-related requirements; and
—Liberalization of certain rules dealing with disqualification of students in Job Training Partnership Act programs and those attending schools that do not require a high school diploma.

Benefit reduction provisions require:
—Counting earnings to on-the-job trainees under Job Training Partnership Act programs, except for dependents less than 19 years of age;
—Counting all but the tuition and mandatory fee components of education grants and loans, regardless of the form of the aid; and
—Counting the portion of cash welfare payments paid for living expenses without regard to the form of the payment (except for certain types of aid such as emergency or medical assistance).

Legislative Action: 1986

In 1986, Congress amended the omnibus anti-drug abuse measure (enacted as P.L. 99-570) to allow homeless persons in shelters to participate in the program and to allow homeless persons to voluntarily use their food stamps for prepared meals served by shelters and soup kitchens.

TABLE 5.—HISTORICAL FOOD STAMP STATISTICS

Fiscal year	Total Federal spending (in millions)[1]		Average monthly participation (in millions of persons)	Average monthly benefits (per person)		4-person maximum monthly allotment[2]
	Current dollars	Constant (1986) dollars[3]		Current dollars	Constant (1986) dollars[3]	
1972[4]	$1,867	$4,952	11.1	$13.50	$35.80	$108
1973	2,207	5,630	12.2	14.60	37.20	112
1974	2,838	6,646	12.9	17.60	41.20	116
1975[5]	4,619	9,745	17.1	21.40	45.10	150
1976	5,685	11,191	18.5	23.90	47.00	162
Transition quarter[6]	1,365	2,600	17.3	24.40	46.50	166
1977	5,461	10,002	17.1	24.70	45.20	166
1978	5,564	9,527	16.0	26.80	45.90	170
1979[7]	6,995	10,845	17.7	30.60	47.40	182
1980	9,188	12,552	21.1	34.40	47.00	204
1981	11,308	13,909	22.4	39.50	48.60	209
1982	[8] 11,117	[8] 12,720	[9] 21.7	[10] 39.20	[10] 44.90	[10] 233
1983	[8] 12,734	[8] 14,086	[9] 23.2	[10] 43.00	[10] 47.60	[10] 253
1984	[8] 12,470	[8] 13,252	[9] 22.4	[10] 42.70	[10] 45.40	[10] 253
1985	[8] 12,598	[8] 12,908	[9] 21.4	[10] 45.00	[10] 46.10	[10] 264
1986 (est.)	[8] 12,540	[8] 12,540	[9] 20.9	[10] 45.50	[10] 45.50	[10] 268

[1] Federal costs, obligations including spending for benefits and administration.

[2] At the beginning of the fiscal year.

[3] Constant dollar adjustments made using the overall Consumer Price Index for All Urban Consumers (CPI-U).

[4] The first fiscal year in which benefit and eligibility rules were, by law, nationally uniform and indexed for inflation.

[5] The first fiscal year in which food stamps were available nationwide.

[6] July through September 1976.

[7] The fiscal year in which the food stamp purchase requirement as eliminated, promoting increased participation among eligible households.

[8] Includes funding for Puerto Rico's nutrition assistance block grant.

[9] Includes persons receiving aid under Puerto Rico's nutrition assistance program.

[10] Does not reflect lower benefits in Puerto Rico.

Notes: Allotment levels were indexed for inflation annually through calendar 1973, and semi-annually from January 1974 through calendar 1980. Since 1980, allotment levels have been increased in January 1981, October 1982, October 1983, October 1984, November 1984, October 1985, and October 1986 ($271). Figures presented in this table have been revised from similar tables presented in earlier versions of this print to reflect more recent spending information.

Compiled by the Congressional Research Service.

Section 9. SSI Program Description

The Supplemental Security Income (SSI) program is a federally administered income assistance program authorized by title XVI of the Social Security Act. Established by the 1972 amendments to the Act (Public Law 92-603) and begun in 1974, SSI provides monthly cash payments in accordance with uniform, nationwide eligibility requirements to needy aged, blind and disabled persons. The SSI program replaced the former Federal grants to the States for old-age assistance, aid to the blind and aid to the permanently disabled. These grants continue in Guam, Puerto Rico and the Virgin Islands. SSI, however, operates in the Northern Mariana Islands.

Basic Eligibility

To qualify for SSI payments, a person must satisfy the program criteria for age, blindness or disability. The aged are defined as persons 65 years and older. The blind are individuals with 20/200 vision or less with the use of a correcting lens in the person's better eye, or those with tunnel vision of 20 degrees or less. Disabled individuals are those unable to engage in any substantial gainful activity by reason of a medically determined physical or mental impairment expected to result in death or that has lasted, or can be expected to last, for a continuous period of at least 12 months. Also, a child under age 18 who has an impairment of comparable severity with that of an adult may be considered disabled.

As explained later, disabled SSI recipients who lose eligibility for regular SSI benefits and for medicaid because their earnings have exceeded the "substantial gainful activity" earnings test, but who continue to be medically disabled, can continue to receive cash assistance and medicaid under certain conditions.

SSI Benefit Standards

Individuals and couples applying for or receiving SSI benefits are determined to be eligible if their countable income does not exceed certain income benefit standards.

Regular Federal SSI benefit standard

The regular Federal SSI benefit standard for an individual for 1987 is $340 a month and $510 for a couple. As is discussed later, most States supplement the regular Federal SSI benefit standard. The result is a combined regular Federal SSI/State supplementation benefit standard against which countable income is compared in determining eligibility and benefit amount. However, many States limit their supplementation to certain categories of individuals based on specific indicators of need—especially special housing needs. In September 1986, over 416,000 persons, or 9.6 percent of

all SSI recipients, were eligible for benefits only because State supplementation increased the benefit standard.

The regular Federal SSI benefit standards are indexed to the Consumer Price Index (CPI) and by the same percentage as Social Security benefits. This occurs through a reference in the SSI law to the Social Security cost-of-living adjustment (COLA) provision. Prior to the Social Security Amendments of 1983 (Public Law 98–21), the SSI and Social Security cost-of-living increases occurred in benefits paid in July. Public Law 98–21 delayed the Social Security and SSI COLA's from July 1983 to January 1984. However, in lieu of a COLA increase in the SSI benefit standard in July 1983, the regular Federal SSI benefit standard was increased in July 1983 by $20 a month for an individual and $30 a month for a couple. Table 1 shows the regular Federal SSI benefit standard from the beginning of the SSI program until the present time.

Living in the household of another

The SSI law provides that if an SSI applicant or recipient is "living in another person's household and receiving support and maintenance in-kind from such person", the value of such in-kind assistance is presumed to equal one-third of the regular Federal SSI benefit standard. The Federal SSI benefit standard applicable to such individual or couple is two-thirds of the regular Federal SSI benefit standard. As shown in table 1, the Federal SSI benefit standard for those determined to be living in the household of another is $226.57 for an individual and $340 for a couple. These amounts are increased annually since they are two-thirds of the regular Federal SSI benefit standard.

By regulation, the Social Security Administration has established certain criteria for determining whether this benefit standard should be applied. If an individual actually owns or rents the living quarters or contributes their pro rata share to the household's expenses, this lower benefit standard does not apply. In September 1986, 5.9 percent, or 250,000 SSI recipients, had their benefits determined on the basis of this "one-third reduction" benefit standard. Sixty-nine percent of those recipients were receiving benefits on the basis of disability (see table 2).

Of the 26 States that supplement the regular Federal SSI benefit standard, 12 States provide the same amount of supplementation for those whose Federal SSI benefit amount is determined on the basis of the "one-third reduction" Federal standard. Eight States provide a higher State supplementation for such recipients and in seven States the amount of State supplementation is less. In two States, a higher State supplement is provided for the blind and a lower State supplement is provided for the aged.

Medicaid institution/personal needs allowance

When an individual enters a hospital or other medical institution in which a major part of a bill is paid by the Medicaid program, his monthly SSI benefit standard is reduced to $25, beginning with the first full calendar month the individual is in such institution. This amount is intended to take care of small personal expenses, with the cost of maintenance and medical care being provided through other programs. The annual cost-of-living increase for SSI does not

apply to the $25 Federal benefit standard and it has not been increased since SSI began in 1974, but some States supplement the $25 Federal payments. Approximately 199,000, or 4.7 percent, of SSI recipients received benefits in September 1986 on the basis of this benefit standard. For those individuals whose income from non-SSI sources exceeds the $25 benefit standard (including those who previously, when they were not living in a medical institution, were receiving some SSI because their Social Security benefits are less than the regular SSI benefit standard), Medicaid regulations require States to allow such individuals (and other non-SSI Medicaid eligibles) to retain no less than $25 a month of their income as a "personal needs allowance" when their income is applied, along with Medicaid reimbursement, to pay for their institutional medical care. Approximately 600,000 additional individuals in nursing homes are affected by this requirement.

Approximately 16 States have exercised their option to supplement this Federal SSI benefit standard. Prior to the 1985 Budget Reconciliation Act, SSI regulations would not allow for Federal administration of the State supplements of these payments. An amendment included in that legislation now requires the Social Security Administration, at the request of a State, to administer such State supplementary payments. As of January 1987, California, Massachusetts, and Maine had opted for Federal administration. Approximately 27 States allow some or all of those individuals affected by the Medicaid personal needs allowance regulations to retain more than $25 a month.

TABLE 1.—FEDERAL SSI BENEFIT STANDARDS

[In dollars]

	Eligibility status					
	Single		Couple		Medicaid facilities	Essential person
	Own household	Another household	Own household	Another household		
Jan. 1974–June 1974	140.00	93.34	210.00	140.00	25.00	70.00
July 1974–June 1975	146.00	97.34	219.00	146.00	25.00	73.00
July 1975–June 1976	157.70	105.14	236.60	154.74	25.00	78.90
July 1976–June 1977	167.80	111.87	251.80	167.87	25.00	84.00
July 1977–June 1978	177.80	118.54	266.70	177.80	25.00	89.00
July 1978–June 1979	189.40	126.27	284.10	189.40	25.00	94.80
July 1979–June 1980	208.20	138.80	312.30	208.20	25.00	104.20
July 1980–June 1981	238.00	158.67	357.00	238.00	25.00	119.20
July 1981–June 1982	264.70	176.47	397.00	264.67	25.00	132.60
July 1982–June 1983	284.30	189.54	426.40	284.27	25.00	142.50
July 1983–Dec. 1983	304.30	202.88	456.40	304.27	25.00	152.50
Jan. 1984–Dec. 1984	[1]314.00	209.34	[1]472.00	314.67	25.00	157.00
Jan. 1985–Dec. 1985	325.00	216.67	488.00	325.34	25.00	163.00
Jan. 1986–Dec. 1986	336.00	224.00	504.00	336.00	25.00	168.00
Jan. 1987–Dec. 1987	340.00	226.67	510.00	340.00	25.00	170.00

[1] Cost-of-living adjustments to Federal SSI benefit levels are rounded to the next lower whole dollar beginning with the increase effective January 1984.

Source: Office of Research and Statistics, Social Security Administration.

Another benefit standard affecting some persons involves federal payments to an individual who was transferred to SSI from a former State program of aid to the aged, blind and disabled. These payments are increased by $170 monthly to take into account an "essential person" living in the household. An essential person is generally an ineligible spouse or relative whose needs were considered in determining the requirements of an eligible individual under the former State program but who is not eligible for SSI. Some States have categories of State supplementation similar to the "essential persons" category for individuals transferred from the pre-SSI program.

TABLE 2.—NUMBER AND PERCENTAGE DISTRIBUTION OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY AND FEDERAL SSI BENEFIT STANDARD/LIVING ARRANGEMENT, SEPTEMBER 1986

Federal benefit standard/living arrangement	Total	Reason for eligibility		
		Aged	Blind	Disabled
Total number	4,231,782	1,476,547	82,782	2,672,453
Total percent	100.0	100.0	100.0	100.0
Regular Federal SSI benefit standard	89.2	90.8	89.5	88.4
Living in the household-of-another Federal SSI benefit standard	5.9	4.9	6.6	6.5
Medicaid institution/personal needs allowance Federal SSI benefit standard	4.7	4.3	3.9	5.0

Income Disregards

Under the program, $20 of monthly income from virtually any source (such as social security benefits, but *not* need-tested income such as veterans' pensions) is disregarded. In addition, the first $65 of monthly earned income plus one-half of remaining earnings are disregarded. Table 3 shows the maximum income that an individual and couple can have and still remain eligible for Federal SSI benefits under the regular Federal SSI benefit standards—taking into account these income disregards.

SSI law requires that an SSI applicant or recipient apply for all other benefits for which they are eligible. For example, in September 1986, 71 percent of the aged, 33 percent of the disabled, and 39 percent of the blind receiving SSI were also Social Security recipients.

For the blind and disabled only, the cost of an approved plan to achieve self-support is also disregarded. SSI recipients who receive benefits on the basis of blindness may also disregard work related expenses. For the disabled, only impairment related work expenses may be disregarded. Income received in sheltered workshops and work activity centers is considered earned income and qualifies for earned income disregards.

The value of any in-kind assistance is counted as income unless such in-kind assistance is specifically disregarded by statute. Generally, in-kind assistance provided by or under the auspices of a federally assisted program, or by a State or local government (for example, nutrition, food stamps, housing or social services), will not be counted as income. As described earlier, if an SSI applicant or recipient is living in the household of another and receiving in-kind support and maintenance from him or her, the SSI benefit standard for such an individual will be reduced by one-third of the Federal SSI benefit standard. By regulation, the Social Security Administration has also provided that the value of any in-kind support and maintenance received (other than in the case of those receiving in-kind assistance by reason of living in another's household), is presumed to be equal to no more than one-third of the Federal SSI benefit standard plus $20. The individual can rebut this presumption. If it is determined that the actual value is less than the one-third amount, the lower, actual value will be counted as unearned income.

In legislation enacted in April 1983, in-kind support and maintenance provided by a private nonprofit organization to aged, blind, or disabled individuals must be disregarded under the SSI program if the State determines that the assistance is provided on the basis of need. This provision is effective through October 1, 1987. Another exclusion from income is certain types of assistance provided to help meet home energy needs. Assistance provided to an aged, blind, or disabled individual for the purpose of meeting home energy costs either in cash or in kind and which is furnished by a home heating oil or gas supplier or by a utility company is to be disregarded. Assistance for home energy costs provided in-kind by a private nonprofit organization is also excluded.

As countable income (total income minus disregarded income) increases, a recipient's SSI payment level decreases. Eligibility for SSI ends when countable income equals the Federal benefit standard plus the amount of applicable State supplementation.

A provision in the 1984 Deficit Reduction Act established a limit on the rate of recovery from SSI recipients who have been overpaid. In the case of overpayments, SSI law limits the amount of adjustment or recovery in any month to the lesser of: (1) the amount of the benefit for that month; or (2) an amount equal to 10 percent of the countable income (including the SSI payment) of the individual (or couple) for that month. This limitation does not apply if there is fraud in connection with the overpayment. The recipient may request a different rate at which benefits or income may be withheld or recovered.

TABLE 3.—MAXIMUM INCOME FOR ELIGIBILITY FOR FEDERAL SSI BENEFITS, 1987

	Receiving only Social Security		Receiving only wage income	
	Monthly	Annually	Monthly	Annually
Individual	$360	$4,320	$765	$9,180
Couple	530	6,360	1,105	13,260

Source: Office of Research and Statistics, Social Security Administration.

Resources

SSI eligibility is restricted to qualified persons who have countable assets of less than $1,800, or less than $2,700 in the case of married couples. The Deficit Reduction Act of 1984 (P.L. 98–369) increased the countable assets limit by $100 a year for an individual and $150 a year for a couple, beginning in calendar year 1985 and each year through calendar year 1989. Prior to January 1, 1985, the assets limit for an individual was $1,500 and $2,250 for a couple. The limit will be $2,000 for an individual and $3,000 for a couple in 1989 and thereafter.

In determining assets, a number of items are not included, such as the individual's home; and, within reasonable limits set by the Secretary of Health and Human Services: Household goods, personal effects, an automobile, and a burial space for the individual, spouse, and members of the immediate family. Regulations place a limit of $2,000 in equity value on excluded household goods and personal effects and exclude the first $4,500 in current market wholesale value of an auto (100 percent of the auto's value if it is used for medical treatment or employment or has been modified for use by a handicapped person or is necessary to perform essential daily activities in unusual climate or terrain). Assets, tools and other property essential to self-support of the blind or the disabled are also excluded. SSI and title II retroactive benefit payments may not be considered as a resource for a period of 6 months after the month in which the retroactive benefit is received.

The cash value of life insurance policies with face values of $1,500 or less are not counted toward the $1,800 or $2,700 countable resources limit. The entire cash value of life insurance policies with face values greater than $1,500 is counted toward the countable resources limit. As an alternative to the life insurance exclusion, an SSI recipient may have excluded from countable resources up to $1,500 in separately identifiable funds set aside for burial expenses. However, term insurance or irrevocable burial trusts will also serve to reduce the $1,500 burial fund limit.

Current law provides that an individual (or eligible spouse) who gives away or sells any nonexcludable resource for less than fair market value for the purpose of establishing SSI or Medicaid eligibility will have any uncompensated value of that resource (the difference between fair market value at the time of the transfer and the amount received for the resource) counted toward the resources

limit of $1,800 for an eligible individual and $2,700 for a couple for a period of 24 months from the date of transfer.

The Deficit Reduction Act of 1984 (P.L. 98-369) requires the Internal Revenue Service to furnish the Social Security Administration with certain nonwage information about SSI recipients. The IRS information consists primarily of reports of interest payments submitted to IRS by financial institutions but also includes income from dividends, unemployment compensation, etc. The purpose of the provision was to assist in alerting the Social Security Administration of the potential ownership by SSI recipients of bank accounts in excess of the SSI countable resources limit. The Social Security Administration anticipates that for fiscal year 1987, computer matches between IRS tax files and SSI records will result in 232,000 such matches being released to SSA offices. They have estimated that the savings will be $34 million from those matches. Only cases involving IRS reports of interest income of $51 or more are being examined under this process. The law requires that before any action is taken based on the match, that there must be an independent verification of the information. The rationale for the $51 tolerance level is based on a determination that the cost of the process would exceed the resulting savings at any lower figure.

Prior to the 1984 Deficit Reduction Act, if in any month a recipient's assets exceeded the asset limit, the individual was ineligible for benefits in that month and the entire amount of the benefit paid for that month was considered an overpayment subject to recovery. Now SSI law provides that in cases where there is an overpayment based on an excess of assets of $50 or less, the recipient is deemed to be without fault for purposes of waiving the overpayment and the overpayment is not recovered unless the Secretary finds that the failure to report the excess was knowing and willful on the part of the recipient.

Deeming of Income and Resources

The income of an ineligible spouse who lives with an adult SSI applicant or recipient is considered in determining the eligibility and amount of payment to the individual. The income of the parents of a disabled or blind child under the age of 18 is also considered in determining the eligibility and payment for the child. The law also provides that such deeming of income and resources shall occur "except to the extent determined by the Secretary to be inequitable under the circumstances".

By regulation, the Secretary of HHS has provided that in determining the amount of the income of the ineligible spouse or parent to be deemed to the SSI applicant or recipient, the needs of the spouse or parent and other children in the household are taken into account. In addition, the SSI earned income disregards are applied in determining the amount of earned income to be deemed to the SSI applicant or recipient. For example, if the countable income of an ineligible spouse exceeds the difference between the SSI benefit standard for an individual and a couple in that State (including State supplementation) the excess is deemed available to the SSI applicant or recipient.

For example, in a State with no State supplementation the deeming procedure would work as follows in the case of an ineligible spouse earning $500 per month living with an eligible individual with $180 of social security benefits:

Earned income of ineligible individual	$500.00
Less $65	−65.00
Less one-half of remaining earnings ($435)	−217.50
Countable income	217.50
Less difference between SSI payment standard for an individual and couple	170.00
Amount deemed to eligible individual	47.50

Thus, the benefit for the eligible individual will be $126.50 [$340−($180 less $20 exclusion)−$47.50]. Without deeming, the individual would have received $180 [$340−($180 less $20 exclusion)]. The $20 exclusion can only be used once and is first applied to unearned income, which in this example is the $180 of social security income.

Under the Secretary's regulations, that portion of the resources of the spouse or parent are deemed to a recipient which are in excess of the amount that would be allowed if the spouse or parent were applying for SSI payments. There are 54,000 spouse-to-spouse and 17,000 parent-to-child cases of deeming currently in which the deeming reduces the benefit. This does not take into account the number of individuals who are not eligible because of the deeming provision.

In determining the eligibility of aliens applying for SSI, the income and resources of their sponsors are considered. After allowances for the needs of the sponsors and his family, the remainder is deemed available for the support of the alien applicant for a 3-year period after entry into the United States. This provision does not apply to those who become blind or disabled after entry, to refugees, and to persons granted political asylum.

Restrictions on SSI Eligibility of Residents of Public Institutions

An individual who is a resident or an inmate of a public institution is ineligible for SSI unless the institution is a facility approved for Medicaid payments, is receiving such payments on behalf of the person, and these payments represent more than 50 percent of the cost of services provided by the facility to the person. However, SSI payments may be made to persons in publicly operated community residences serving no more than 16 persons. In addition, an amendment adopted in 1983 provides that temporary residents of public emergency shelters can receive SSI payments for up to 3 months in any 12-month period.

State Supplementation

State supplementary payments are required by law to maintain income levels of former public assistance recipients transferred to the Federal SSI program. In January 1986, approximately 7,976 recipients were receiving payments based in part or solely because of this provision. States have the option to choose to supplement the

Federal SSI benefit standard for both former public assistance recipients and other SSI recipients. At the present time, all but eight States and jurisdictions provide some form of optional State supplementation. Those are: Arkansas, Georgia, Kansas, Mississippi, Northern Mariana Islands, Tennessee, Texas, and West Virginia. States (or local jurisdictions) may elect to administer their supplementary payments themselves or may contract with the Social Security Administration for Federal administration. Seventeen States and the District of Columbia have contracted with the Social Security Administration to administer the State optional supplementation program. Since the SSI program began in 1974, six States have shifted from Federal to State administration of their optional State supplementation program.

Approximately 46 percent of the SSI recipients receive a State supplement. For those SSI recipients, other than those receiving a State supplement because they are living in some type of group living arrangement, the amount of State supplement ranges from $2 a month to $292 a month for an individual. At present, 26 States and the District of Columbia supplement the Federal standard for individuals living independently.

Table 18 shows the number of persons receiving State administered payments and federally administered SSI payments by State for September 1986.

Table 4 for individuals living independently and table 5 for couples illustrate the maximum potential payment from Federal SSI, State supplements and food stamps for individuals, with no income, by State. These tables assume that the elderly individual or couple receive an excess shelter deduction of $149 and an excess medical cost deduction of $8 in the food stamp program. Approximately 60 percent of the elderly in the food stamp program take a shelter deduction, and it is estimated that approximately 19 percent of the elderly are allowed a deduction of $149 or more. However, since only 12 percent of the elderly claim a medical cost deduction, the average of medical cost deductions over all elderly recipients (both those who claim and those who do not) was used in the table, instead of the average $67 deduction taken by the small minority who claim it. If the higher medical deduction level were used, food stamp benefits shown in the table would be increased by about $18. For those individuals or couples with no shelter deduction, the monthly food stamp and combined benefit amount would be reduced by $44. There is no ceiling on the excess shelter deduction for aged or disabled persons.

TABLE 4.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED INDIVIDUALS LIVING INDEPENDENTLY, JANUARY 1987 [1]

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
Alabama	$340	$55	$395	$4,740
Alaska	632	52	684	8,208
Arizona	340	55	395	4,740
Arkansas	340	55	395	4,740
California	560	[3] 0	560	6,720
Colorado	398	38	436	5,232
Connecticut*	[4] 486	12	498	5,976
Delaware	340	55	395	4,740
District of Columbia	355	51	406	4,872
Florida	340	55	395	4,740
Georgia	340	55	395	4,740
Hawaii	345	128	473	5,676
Idaho	[5] 413	39	452	5,424
Illinois*	[6] 375	45	420	5,040
Indiana	340	55	395	4,740
Iowa	340	55	395	4,740
Kansas	340	55	395	4,740
Kentucky	340	55	395	4,740
Louisiana	340	55	395	4,740
Maine	350	52	402	4,824
Maryland	340	55	395	4,740
Massachusetts	469	17	486	5,832
Michigan	369	47	416	4,992
Minnesota	[7] 375	45	420	5,040
Mississippi	340	55	395	4,740
Missouri	340	55	395	4,740
Montana	340	55	395	4,740
Nebraska	398	38	436	5,232
Nevada	376	45	421	5,052
New Hampshire	[8] 367	51	418	5,016
New Jersey	371	46	417	5,004
New Mexico	340	55	395	4,740
New York	412	34	446	5,352
North Carolina	340	55	395	4,740
North Dakota	340	55	395	4,740
Ohio	340	55	395	4,740
Oklahoma	404	36	440	5,280
Oregon	342	55	397	4,764
Pennsylvania	372	46	418	5,016

TABLE 4.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED INDIVIDUALS LIVING INDEPENDENTLY, JANUARY 1987 [1]—Continued

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
Rhode Island	$396	$39	$435	$5,220
South Carolina	340	55	395	4,740
South Dakota	355	51	406	4,872
Tennessee	340	55	395	4,740
Texas	340	55	395	4,740
Utah	350	52	402	4,824
Vermont	[9] 397	38	435	5,220
Virginia	340	55	395	4,740
Washington	[10] 368	47	415	4,980
West Virginia	340	55	395	4,740
Wisconsin	442	[3] 0	442	5,304
Wyoming	360	49	409	4,908

[*] Data obtained from State by CRS.

[1] In most States these maximums apply also to blind or disabled SSI recipients who are living in their own households; but some States provide different benefit schedules for each category.

[2] For one-person households, maximum food stamp benefits from Oct. 1986 through Sept. 1987 are $81 in the 48 contiguous States and the District of Columbia, $111 in Alaska (urban areas, benefit levels in rural Alaska are increased by about 50 percent to account for higher food prices in such areas), and $128 in Hawaii.

For the 48 contiguous States and D.C., the calculation of benefits assumes: (1) a "standard" deduction of $99 per month, (2) an excess shelter deduction of $149 per month (the maximum allowable for nonelderly, nondisabled households); and (3) an excess medical expense deduction of $8 monthly (estimated from 1984 medical expense information). If smaller excess shelter costs were assumed, food stamp benefits would be smaller. For Alaska and Hawaii, higher deduction levels were used, as provided by law ($429 and $353, respectively, for combined standard and excess shelter allowance).

[3] SSI recipients in California and Wisconsin are ineligible for food stamps. These States provide increased cash aid in lieu of stamps.

[4] State decides benefits on a case-by-case basis. Estimate based on 1986 data.

[5] State disregards $20 of SSI payment in determining the State supplementary payment.

[6] Estimated usual maximum paid for aged individual. Assumes shelter allowance of $97. State decides benefits on case-by-case basis. Estimate based on 1985 data.

[7] Payment level for Hennepin County. State has 10 geographic payment levels.

[8] State disregards $13 of an individual's income in determining the supplementary payment. The State supplementary payment amount is rounded to next higher dollar.

[9] State has two geographic payment levels—highest are shown in table.

[10] Sum paid in King, Pierce, Kitsap, Snohomish, and Thurston Counties.

Source: Table prepared by the Congressional Research Service (CRS) on the basis of data from the Social Security Administration (except for Connecticut and Illinois).

TABLE 5.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED COUPLES LIVING INDEPENDENTLY, JANUARY 1987 [1]

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
Alabama	$510	$72	$582	$6,984
Alaska	937	54	991	11,892
Arizona	510	72	582	6,984
Arkansas	510	72	582	6,984
California	1,039	[3] 0	1,039	12,468
Colorado	626	38	664	7,968
Connecticut*	[4] 596	47	643	7,716
Delaware	510	72	582	6,984
District of Columbia	540	63	603	7,236
Florida	510	72	582	6,984
Georgia	510	72	582	6,984
Hawaii	519	186	705	8,460
Idaho	[5] 554	65	619	7,428
Illinois*	[6] 543	62	605	7,260
Indiana	510	72	582	6,984
Iowa	510	72	582	6,984
Kansas	510	72	582	6,984
Kentucky	510	72	582	6,984
Louisiana	510	72	582	6,984
Maine	525	68	593	7,116
Maryland	510	72	582	6,984
Massachusetts	712	12	724	8,688
Michigan	554	59	613	7,356
Minnesota	[7] 576	53	629	7,548
Mississippi	510	72	582	6,984
Missouri	510	72	582	6,984
Montana	510	72	582	6,984
Nebraska	588	49	637	7,644
Nevada	584	50	634	7,608
New Hampshire	[8] 531	72	603	7,236
New Jersey	535	65	600	7,200
New Mexico	510	72	582	6,984
New York	603	44	647	7,764
North Carolina	510	72	582	6,984
North Dakota	510	72	582	6,984
Ohio	510	72	582	6,984
Oklahoma	638	34	672	8,064
Oregon	510	72	582	6,984
Pennsylvania	559	58	617	7,404

TABLE 5.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED COUPLES LIVING INDEPENDENTLY, JANUARY 1987 [1]—Continued

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
Rhode Island	$616	$41	$657	$7,884
South Carolina	510	72	582	6,984
South Dakota	525	68	593	7,116
Tennessee	510	72	582	6,984
Texas	510	72	582	6,984
Utah	530	66	596	7,152
Vermont	[9] 614	41	655	7,860
Virginia	510	72	582	6,984
Washington	[10] 532	66	598	7,176
West Virginia	510	72	582	6,984
Wisconsin	674	[3] 0	674	8,088
Wyoming	550	60	610	7,320

* Data obtained from State by CRS.

[1] In most States these maximums apply also to blind or disabled SSI recipients who are living in their own households; but some States provide different benefit schedules for each category.

[2] For two-person households, maximum food stamp benefits from Oct. 1986 through Sept. 1987 are $149 in the 48 contiguous States and the District of Columbia, $204 in Alaska (urban areas, benefit levels for rural Alaska are about 50 percent higher to account for high food prices in such areas), and $234 in Hawaii.

For the 48 contiguous States and D.C., the calculation of benefits assumes: (1) a "standard" deduction of $99 per month, (2) an excess shelter deduction of $149 per month (the maximum allowable for nonelderly, nondisabled households); and (3) an excess medical expense deduction of $8 monthly (estimated from 1984 medical expense information). If smaller excess shelter costs were assumed, food stamp benefits would be smaller. For Alaska and Hawaii, higher deduction levels were used, as provided by law ($429 and $353, respectively, for combined standard and excess shelter allowance).

[3] SSI recipients in California and Wisconsin are ineligible for food stamps. These States provide increased cash aid in lieu of stamps.

[4] State decides benefits on a case-by-case basis. Estimate based on 1986 data.

[5] State disregards $20 of SSI income in determining the State supplementary payment amounts.

[6] Estimated usual maximum paid for aged couple. Assumes shelter allowance of $97. State decides benefits on case-by-case basis. Estimate based on 1985 data.

[7] Payment level for Hennepin County. State has 10 geographical payment levels.

[8] State disregards $20 of a couple's SSI income in determining supplementary payment amounts. State supplementary payment amounts are rounded to next higher dollar.

[9] State has two geographic payment levels—highest levels are shown in table.

[10] Sum paid in King, Pierce, Kitsap, Snohomish, and Thurston Counties.

Source: Table prepared by the Congressional Research Service (CRS) on the basis of data from the Social Security Administration (except for Connecticut and Illinois).

State SSI Supplement Levels Over Time

Throughout the entire period from July 1975 to January 1987, 23 States have continuously provided supplemental SSI payments to aged individuals living independently, and 21 States continuously supplemented SSI payments to aged couples living independently. Four States increased their SSI supplements faster than inflation.

During the period of July 1975 to January 1987, Alaska, California, Colorado, Michigan, New Hampshire, and Oklahoma were the only States which increased supplements faster than inflation for aged individuals living independently (see table 19).

The District of Columbia, South Dakota, Utah, and Wyoming all began supplementing SSI payments to individuals between 1975 and 1980.

Among the States which have supplemented SSI payments for aged couples living independently, only Alaska, California, Colorado, Michigan, and Oklahoma have kept their supplemental increases equivalent to or higher than inflation.

State Supplementation for Special Housing Needs

A significant number of the aged, disabled and blind population receiving SSI cannot live alone because of mental or physical limitations and have a need for housing which involves services beyond room and board. These services often include supervision for daily living and protective services for the mentally retarded, chronically mentally ill, or the frail or confused elderly. Such nonmedical supervised and/or group living arrangements generally cost more than the Federal SSI benefit needs standard of $340 a month and often more than the combined Federal and SSI State supplementation for those classified as living independently.

All but 8 of the 52 States and jurisdictions have Federal or State administered State supplementation which is specifically directed at covering the additional cost of providing housing in a protective, supervised, or group living arrangement.

These living arrangements are identified by a variety of terms including: adult foster care homes; domiciliary care homes; congregate care; group home for the mentally retarded and a variety of other terms. The amount of supplementation by the State also varies a great deal. For example, in the State of Maryland under a State-administered supplementation program, a "special services" group living facility for the chronically mentally ill has a State supplementation of $638 a month in addition to the Federal benefit level of $340. In addition, the State disregards $72.50 per month of any income, including Federal SSI, in determining the amount of State supplementation. Therefore, the total Federal and State SSI payment in a month is $1,039.50. In other States the State supplementation is less than $50 a month for those who need little supervision and care. However, in some States, the cost of supervised group living care is also partially met by direct State funding of the staff. In a number of States, the State makes payments for nonmedical group care directly to private residential facilities based on a rate negotiated by the State with each facility. In such cases, there is often a "personal needs allowance" payment made directly to or on behalf of the residents of the facility.

SSI Outreach

The 1983 Social Security Amendments (P.L. 98–21) mandated the Social Security Administration (SSA) to conduct two separate outreach activities aimed at the aged population. The first was a one-time mailing of alerts to those aged individuals and couples whose social security benefits were less than the supplemental security income (SSI) eligibility levels. Between February and July 1984 over 7.6 million notices were mailed as part of this one-time alert. SSA used a mail survey questionnaire to evaluate the effects of this alert process. As a result of the one-time outreach effort, there were approximately 160,000 field office contacts. These contacts resulted in 79,000 applications for SSI payments and 58,000 awards, with an average monthly SSI payment of $60 to supplement these recipients' social security benefits. Most of the people who did not contact SSA after receiving the alert reported that they felt that they were ineligible because of too many resources or too much income.

The second outreach activity is an ongoing effort to notify two groups of social security beneficiaries: those about to reach age 65; and disabled individuals who have been receiving social security benefits for 21 consecutive months and will soon be eligible for Medicare. Beginning in July 1983, and continuing each month, approximately 110,000 aged and disabled social security beneficiaries receive an SSI alert which accompanies the Medicare enrollment notice. Eighty percent of the alerts go to retired beneficiaries, with the remainder sent to disability beneficiaries. The trend in SSI monthly aged awards showed a marked change when this mailing began. SSA estimates that about 2,000 additional aged awards per month have resulted from the ongoing alerts since July 1983.

As a result of these two outreach efforts, the decline in the aged SSI population was temporarily reversed, resulting in a high of 2,083,633 aged recipients in September 1984. Since that date, the aged SSI population has begun to decrease somewhat, although at a slower rate than that experienced before the outreach.

SSI and the Homeless

Evidence that approximately 30–40 percent of residents of emergency shelters for the homeless are the chronically mentally ill, including significant numbers of former residents of mental institutions, has led to the enactment of specific legislation and the development of outreach programs and administrative initiatives to better meet the needs of the homeless who may be eligible for SSI.

These initiatives are designed to address special problems related to the characteristics of the homeless: they are often difficult to locate and contact; they have limited ability to find information needed to make application; and they are often incapable or reluctant to follow through with the claim process. While many of the chronically mentally ill live with family or have other ongoing contact with those who can assist them with daily living activities, those mentally ill who are homeless are more likely to have very limited contact with family or others who could assist them in obtaining housing or applying for benefits.

As stated earlier, specific legislative changes were made in 1983 to respond to the needs of the homeless. In-kind support or maintenance provided by a private nonprofit organization must not be counted as income under the SSI program if the State determines that the assistance is provided on the basis of need. While residents of most public institutions except small group homes are not eligible for SSI, a 1983 amendment provided that temporary residents of public emergency shelters can receive SSI benefits for up to 3 months in any 12-month period.

Administrative initiatives by the Social Security Administration to provide assistance to the homeless include:

Outreach.—District office staff of the Social Security Administration have established "contact stations" in shelters in a number of cities. For example, the New York City outreach project has Social Security staff outstationed in seven shelters. By November 1986, 1,682 applications and related contracts were made under this arrangement and the allowance rate has been 85 to 90 percent for the SSI and social security cases involved.

"Immediate payments".—Beginning in October 1985, local social security offices were given the authority to make "immediate payments" for certain social security and SSI cases when it is found that any delay in payment would result in deprivation of food and/or shelter or endangerment of health. "Immediate" usually means while the beneficiary waits or the next day at the latest. The payments are made using preprinted checks limited to a maximum per beneficiary of $200 or the amount due, whichever is less, in a 30-day period. The person's entitlement to benefits must be verified by the local office. From October through December of 1985, 1,530 individuals received payments under this procedure.

Pre-release agreements between public mental institutions and local offices of the Social Security Administration have been a procedure available since the beginning of the SSI program. One of the purposes of these, usually informal, agreements is to identify those disabled individuals who upon release from an institution will be in need of immediate assistance if homelessness is to be prevented. Residents of large public institutions including State mental hospitals are not eligible for SSI. Therefore as part of the planning for the release of the patient, there is a determination of their meeting the disability criteria for SSI prior to leaving the institution. In addition, there is a determination that the individual will meet the other SSI eligibility criteria based on a projection of the individual's situation upon leaving the institution. When the decision is favorable, upon release from the institution an SSI payment can be made immediately.

The Social Security Administration is currently evaluating the extent of the use of this potential arrangement and determining any barriers to its effective use in preventing homelessness.

Comparison of SSI Payment Levels to Poverty Thresholds

Table 6 compares the Federal SSI benefit for a single individual to the poverty threshold (census). Both the poverty threshold and the benefit level are indexed to the Consumer Price Index. (The percentage increase for the poverty threshold and the SSI benefit

increase varies slightly because of a difference in the method of calculation.) As a result of Public Law 98–21, the SSI benefit levels were increased by $20 per month for individuals and $30 per month for couples in July 1983. They were further increased by 3.5 percent in January 1984. This explains why SSI benefits, in relation to the poverty level, increased to approximately 75 percent in 1984 and 1985 compared to 71 percent in the 1975 to 1982 period.

For individuals receiving unearned income such as Social Security, the amount of benefits is $240 per year more than the SSI benefit. Because the $240 amount is not indexed, the percent of poverty is slightly lower in 1987 compared to 1975 despite the SSI benefit increases.

Table 7 presents the same information for a couple. The SSI benefit for a couple is approximately 89 percent of the poverty threshold.

TABLE 6.—COMPARISON OF COMBINED BENEFITS TO POVERTY THRESHOLDS FOR ELIGIBLE INDIVIDUALS RECEIVING SSI; SSI AND SOCIAL SECURITY; AND SSI, SOCIAL SECURITY AND FOOD STAMPS FOR SELECTED YEARS: 1975 TO 1987

	Calendar year					
	1975	1980	1982	1984	1986	1987
Poverty threshold	2,572	3,941	4,630	4,980	[1] 5,260	[2] 5,450
Federal SSI benefits:						
Dollars per year	1,822	2,677	3,294	3,768	4,032	4,080
Percent of poverty	70.8	67.9	71.1	75.7	76.7	74.9
Federal SSI and social security:						
Dollars per year	2,062	2,917	3,534	4,008	4,272	4,320
Percent of poverty	80.2	74.0	76.3	80.5	81.2	79.3
Federal SSI, social security, and food stamps: [3]						
Dollars per year	2,350	3,345	3,906	4,294	4,488	4,608
Percent of poverty	91.4	84.9	84.4	86.2	85.3	84.6

[1] Factor used to update 1986 poverty threshold (1.019).
[2] Factor used to project 1987 poverty threshold (1.036).
[3] In computing the food stamp benefit for 1975, average deductions among all elderly households are assumed. For later years, the applicable standard deduction plus average shelter and medical deductions among all elderly households is assumed.

Source: Congressional Research Service.

TABLE 7.—COMPARISON OF COMBINED BENEFITS TO POVERTY THRESHOLDS FOR ELIGIBLE COUPLES RECEIVING SSI; SSI AND SOCIAL SECURITY; AND SSI, SOCIAL SECURITY AND FOOD STAMPS FOR SELECTED YEARS: 1975 TO 1987

	Calendar year					
	1975	1980	1982	1984	1986	1987
Poverty threshold	3,232	4,954	5,840	6,280	[1] 6,630	[2] 6,870
Federal SSI benefits:						
Dollars per year	2,734	4,016	4,940	5,664	6,048	6,120

TABLE 7.—COMPARISON OF COMBINED BENEFITS TO POVERTY THRESHOLDS FOR ELIGIBLE COUPLES RECEIVING SSI; SSI AND SOCIAL SECURITY; AND SSI, SOCIAL SECURITY AND FOOD STAMPS FOR SELECTED YEARS: 1975 TO 1987—Continued

	Calendar year					
	1975	1980	1982	1984	1986	1987
Percent of poverty.....	84.6	81.1	84.6	90.2	91.2	89.1
Federal SSI and social security:						
Dollars per year.....	2,974	4,256	5,180	5,904	6,288	6,360
Percent of poverty.....	92.0	85.9	88.7	94.0	94.8	92.6
Federal SSI, social security, and food stamps: [3]						
Dollars per year.....	3,430	4,906	5,792	6,393	6,696	6,852
Percent of poverty.....	106.1	99.0	99.2	101.8	101.0	99.7

[1] Factor used to update 1986 poverty threshold (1.019).
[2] Factor used to project 1987 poverty threshold (1.036).
[3] In computing the food stamp benefit for 1975, average deductions among all elderly households are assumed. For later years, the applicable standard deduction plus average shelter and medical deductions among all elderly households is assumed.

Source: Congressional Research Service.

SSI Program Costs

Table 8 shows the program costs for the SSI program in fiscal years 1985 and 1986 and estimated costs for fiscal years 1987 and 1988. In fiscal year 1986, approximately $9.3 billion of federally financed payments were made to the aged, blind, and disabled. The Federal Government's cost of administering the program was approximately $1 billion. Federal SSI benefits and the cost of administering the program are financed from general funds from the Treasury. The Social Security Administration also administers the payment of approximately $2.2 billion of State financed State supplementary payments. An additional $327 million was paid out in State administered State supplementation payments.

In fiscal year 1986, of the $9.3 billion of Federal SSI benefits, approximately $6.3 billion, or 72 percent, went to those who were eligible on the basis of disability; $2.1 billion, or 26 percent, to the aged; and $192 million, or 2 percent, to the blind.

In addition to the fact that a higher percent of the total SSI population were eligible on the basis of disability rather than age, the higher percent of Federal SSI payments for the disabled is also due to the fact that only 33 percent of the disabled have other income in the form of Social Security benefits compared to 71 percent of the aged.

Table 9 shows the total expenditures for the SSI program in each State, including not only the federally administered Federal and State supplementation payments but also the State administered State supplementation payments.

TABLE 8.—SSI FEDERAL PROGRAM COST BY ACTIVITIES

[In millions of dollars]

Program by activities	1985	1986	1987 (estimate)	1988 (estimate)
Direct program:				
Federal benefit payments	8,638	9,315	9,790	11,210
Comparable benefit level [1]	(8,638)	(9,315)	(9,790)	(12,130)
Beneficiary services [2]	3	8	12	12
Payments to the trust funds for administrative costs [3]	953	1,022	1,072	1,080
Demonstration	4	([4])	1	1
Federal fiscal liability	9	([4])	73	.....
Total Federal direct program	9,606	10,345	10,948	12,303

[1] 1985 through 1987 reflect 12 months of payments. 1988 reflects 13 months of payments including the check for October 1, 1989.

[2] Includes rehabilitation services provided to blind and disabled individuals, and monitoring of treatment of drug addicts and alcoholics.

[3] Includes cost of administering Federal SSI payments and Federally administered State supplementation. These are not available separately.

[4] Less than $500,000.

Source: Office of Research and Statistics, and Office of Financial Resources. Social Security Administration.

TABLE 9.—SUPPLEMENTAL SECURITY INCOME: TOTAL PAYMENTS, FEDERAL SSI PAYMENTS, AND FEDERALLY ADMINISTERED AND STATE ADMINISTERED STATE SUPPLEMENTARY PAYMENTS, FISCAL YEAR 1986

[In thousands]

State	Total	Federal SSI	State supplementation	
			Federally administered	State administered
Total	$11,784,674	$9,288,399	[1] $2,170,084	[2] $326,191
Alabama	296,849	283,190	.....	13,659
Alaska	22,528	9,558	.....	12,970
Arizona	92,871	90,203	.....	2,668
Arkansas	147,710	147,682	28	.....
California	2,699,733	1,233,654	1,466,079	.....
Colorado	111,506	73,186	.....	38,320
Connecticut	108,362	71,784	.....	36,578
Delaware	17,944	17,273	671	.....
District of Columbia	45,169	41,967	4,202	.....
Florida	482,552	472,834	([3])	9,718
Georgia	336,821	336,813	8	.....
Hawaii	32,702	28,962	3,740	.....
Idaho	23,948	19,812	.....	4,136
Illinois	433,469	382,272	.....	51,197

TABLE 9.—SUPPLEMENTAL SECURITY INCOME: TOTAL PAYMENTS, FEDERAL SSI PAYMENTS, AND FEDERALLY ADMINISTERED AND STATE ADMINISTERED STATE SUPPLEMENTARY PAYMENTS, FISCAL YEAR 1986—Continued

[In thousands]

State	Total	Federal SSI	State supplementation	
			Federally administered	State administered
Indiana	120,497	118,753	.....	1,744
Iowa	59,130	57,222	1,908	.....
Kansas	46,166	46,139	27	.....
Kentucky	250,774	240,979	.....	9,795
Louisiana	300,668	300,626	42	.....
Maine	44,245	38,832	5,413	.....
Maryland	139,614	134,362	70	5,182
Massachusetts	304,753	195,301	109,452	.....
Michigan	358,180	291,842	66,338	.....
Minnesota	91,029	71,211	.....	19,818
Mississippi	246,080	246,051	29	.....
Missouri	190,827	185,695	.....	5,132
Montana	18,544	17,710	834	.....
Nebraska	35,672	30,324	.....	5,348
Nevada	20,067	17,536	2,531	.....
New Hampshire	21,705	14,379	.....	7,326
New Jersey	268,302	220,178	48,124	.....
New Mexico	64,540	64,324	.....	216
New York	1,153,667	876,632	277,035	.....
North Carolina	350,663	309,572	.....	41,091
North Dakota	15,229	13,711	.....	1,518
Ohio	335,931	335,896	35	.....
Oklahoma	158,271	126,891	.....	31,380
Oregon	73,993	64,226	.....	9,767
Pennsylvania	462,059	392,873	69,186	.....
Rhode Island	40,529	31,127	9,402	.....
South Carolina	194,062	189,250	.....	4,812
South Dakota	18,301	17,710	27	564
Tennessee	289,740	289,740	.....	.....
Texas	549,756	549,756	.....	.....
Utah	22,580	21,708	.....	872
Vermont	24,663	17,427	7,236	.....
Virginia	205,472	193,308	.....	12,164
Washington	135,688	118,245	17,443	.....
West Virginia	110,859	110,859	.....	.....

TABLE 9.—SUPPLEMENTAL SECURITY INCOME: TOTAL PAYMENTS, FEDERAL SSI PAYMENTS, AND FEDERALLY ADMINISTERED AND STATE ADMINISTERED STATE SUPPLEMENTARY PAYMENTS, FISCAL YEAR 1986—Continued

[In thousands]

State	Total	Federal SSI	State supplementation	
			Federally administered	State administered
Wisconsin	201,991	121,703	80,288	.....
Wyoming	5,459	5,243	.....	216
Other areas:				
Northern Mariana Islands	1,864	1,864	.....	.....

[1] Payments reduced by $64,000 to reflect returned checks and overpayment refunds not distributed by State.
[2] Excludes data for Iowa, Louisiana and Ohio.
[3] Data not shown; adjustment total exceeds the actual amounts paid during the year.

Table 10 illustrates the total amount of Federal and State benefit payments from calendar year 1970 to 1984. From 1970 to 1973, these were the benefits under the old-age assistance, aid to the blind, and aid to the permanently and totally disabled programs. From 1987 to 1989, these are estimated payment projections. In fiscal year 1986, Federal benefit payments totaled $9.288 billion and State payments of $2.496 billion.

TABLE 10.—FEDERAL AND STATE BENEFIT PAYMENTS UNDER SSI AND PRIOR ADULT ASSISTANCE PROGRAMS, CALENDAR YEARS 1970–84 AND FISCAL YEARS 1985–1988

[In millions of dollars]

Calendar year [1]	Total	Total constant 1986 dollars	Federal payments	Total State payments	State payments	
					Federally administered	State administered
1970	2,939	8,299	1,801	1,138	.....	.....
1971	3,206	8,680	(2)	(2)	.....	.....
1972	3,392	8,890	1,993	1,398	.....	.....
1973	3,418	8,433	1,987	1,432	.....	.....
1974	5,246	11,664	3,833	1,413	1,264	149
1975	5,878	11,975	4,314	1,565	1,403	162
1976	6,066	11,684	4,512	1,554	1,388	166
1977	6,306	11,410	4,703	1,603	1,431	172
1978	6,552	11,012	4,881	1,671	1,491	180
1979	7,075	10,687	5,279	1,796	1,590	207
1980	7,941	10,567	5,866	2,074	1,848	226
1981	8,593	10,360	6,518	2,076	1,839	237
1982	8,981	10,202	6,907	2,074	1,798	276
1983	9,404	10,349	7,423	1,981	1,711	270
1984	10,372	10,949	8,284	2,091	1,792	299
1985 [3]	10,897	11,107	8,660	2,237	1,923	314
1986 [3]	11,785	11,785	9,288	2,496	2,170	326
1987 [4]	12,755	12,324	10,140	2,615	2,275	340
1988 [4]	14,365	13,307	11,610	2,755	2,400	355

[1] 1970–1973 refers to Old-Age Assistance, Aid to the Blind and Aid to the Permanently and Totally Disabled; 1974–1988 refers to Supplemental Security Income.

[2] Data not available.

[3] Fiscal year payments.

[4] Fiscal year estimated outlays.

Source: Office of Research and Statistics, and Office of Financial Resources, Social Security Administration.

Number of Recipients: 1970–1990 (Projected)

Table 11 illustrates the changes in the number of individuals receiving assistance under the federally administered SSI program and prior programs. The total number of individuals receiving assistance was 3.1 million in 1970; this increased to 4.3 million in 1975 and declined to 3.9 million in 1982 and 1983. It is expected to increase to 4.4 million in 1988 and 4.6 million in 1990. The number of aged receiving SSI has declined sharply since 1975 from 2.3 million (or 2.5 million if disabled over age 65 are counted as aged) to 1.5 million individuals in 1986 (2.0 million if disabled over 65 are counted). The number of disabled receiving assistance increased sharply from 1.0 million in 1970 to 2.0 million in 1975. The number of disabled is projected to be around 3.2 million individuals in 1990.

The number of individuals receiving only Federally administered State SSI benefits steadily declined from 1978 to 1983 but is expected to increase from 1984 to 1990.

TABLE 11.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS, 1974–1990; AND ADULT ASSISTANCE UNDER PRIOR PROGRAMS, 1970–1973

[In thousands]

Year [1]	Total [2]	Aged [3]	Blind or disabled		Federal SSI [6]	State supplemental only
			Total [4]	65 and older [5]		
1970	3,098	2,082	1,016	.....	.....	.....
1971	3,172	2,024	1,148	.....	.....	.....
1972	3,182	1,934	1,248	.....	.....	.....
1973	3,173	1,820	1,353	.....	.....	.....
1974	3,996	2,286	1,710	([7])	([8])	([8])
1975	4,314	2,307	2,007	201	3,893	421
1976	4,236	2,148	2,088	249	3,799	437
1977	4,238	2,051	2,187	302	3,778	460
1978	4,217	1,968	2,249	344	3,755	462
1979	4,150	1,872	2,278	386	3,687	462
1980	4,142	1,808	2,334	419	3,682	460
1981	4,019	1,678	2,341	443	3,590	429
1982	3,858	1,549	2,309	462	3,473	384
1983	3,901	1,515	2,386	485	3,590	311
1984	4,029	1,530	2,499	507	3,699	331
1985	4,138	1,504	2,634	525	3,799	339
1986	4,269	1,473	2,796	540	3,922	348
1987 [9]	4,280	1,457	2,823	565	3,933	347
1988 [9]	4,388	1,431	2,957	591	4,029	359
1989 [9]	4,487	1,409	3,078	616	4,118	369
1990 [9]	4,582	1,389	3,193	639	4,204	378

[1] Data are for December of each year except for 1987–1990 where the data is for March.

[2] All persons with Federal SSI payments and/or Federally administered State supplementation; 1974–1990. For 1970–1973, the total is the number of recipients under the Old-Age Assistance and Aid to the Blind and Aid to the Permanently and Totally Disabled Programs.

[3] For 1970–1973, this column is the number of recipients under the Old-Age Assistance program.

[4] For 1970–1973, this column is the number of recipients under the Aid to the Blind and Aid to the Permanently and Totally Disabled Programs.

[5] For 1974–1985, this is the number of age 65 and older individuals who first received SSI benefits because of being blind or disabled.

[6] All persons with Federal SSI payments include those receiving Federal payments only or both Federal SSI and Federally administered State supplementation.

[7] Data not available for December 1974. In January 1974, there were 87,000 blind and disabled recipients aged 65 and older.

[8] Data not available.

[9] For 1987 to 1990, these data are projections under current law.

Source: Office of Research and Statistics, and Office of Financial Resources, Social Security Administration.

Eligibility of SSI Recipients for Medicaid

States have three options as to how they treat SSI recipients in relation to Medicaid eligibility. Section 1634 of SSI law allows the Social Security Administration to enter into agreements with States to automatically cover all SSI recipients with Medicaid eligibility. SSI recipients are not required to make a separate application for Medicaid under this arrangement. Thirty States have chosen this option, and SSI recipients in these States account for approximately 75 percent of all SSI recipients nationwide.

Under the second option, States elect to automatically provide Medicaid eligibility for all SSI recipients, but only if the recipient completes a separate application with the State agency which administers the Medicaid program. The six States of Alaska, Idaho, Kansas, Mississippi, Nevada, and Oregon, affecting about 2.5 percent of SSI recipients nationwide, have elected this option.

The third and most restrictive option is known as the "209(b)" option, under which States may impose Medicaid eligibility criteria which are more restrictive than SSI criteria, so long as the criteria chosen were part of the State's approved Medicaid State plan in January 1972. 209(b) States may be more restrictive in defining blindness or disability, or more restrictive in their financial requirements for eligibility. Many States use this option to impose stricter transfer of assets or relatives' responsibility requirements than SSI. However, aged, blind, and disabled Medicaid applicants must be allowed to spend-down in 209(b) States, regardless of whether or not the State has a medically needy program. Fourteen States use the 209(b) option for Medicaid coverage of aged, blind, and disabled SSI recipients. About 22 percent of the SSI recipient population nationwide lives in these 209(b) States. The 14 States that use this option are:

Connecticut	Missouri	Ohio
Hawaii	Nebraska	Oklahoma
Illinois	New Hampshire	Utah
Indiana	North Carolina	Virginia
Minnesota	North Dakota	

An amendment included in the 1986 SSI disability amendments (P.L. 99-643) will require, effective July 1, 1987, that 209(b) States continue Medicaid coverage for those SSI recipients who were eligible for Medicaid under a State's more restrictive criteria beginning with the time the individual becomes eligible under Section 1619.

The same legislation will also require States, effective July 1, 1987, to provide for continued Medicaid coverage for those individuals who lose their eligibility for SSI when their income increases because they become newly eligible for social security benefits as an adult disabled child or because of an increase in their benefits as an adult disabled child.

Eligibility of SSI Recipients for Food Stamps

Except in California and Wisconsin, SSI beneficiaries may qualify for food stamps if they meet the food stamp income and assets requirements. In these two States, the food stamp program is "cashed out"—in other words, these States have chosen to increase State SSI supplemental payments in lieu of food stamps.

The interaction with the food stamp program has important financial implications for a State which desires to increase the income of its SSI recipients by $1.00. Because food stamps are reduced by $0.30 for each additional $1.00 of SSI income including State supplements, the State must expend $1.43 to obtain an effective $1.00 increase in SSI recipients' total income.

Characteristics of the SSI Population

As shown in table 12, in September 1986, 4.232 million persons received federally administered SSI payments. Of these, 1.477 million received federally administered payments on the basis of being aged, 2.672 million on the basis of being disabled, and 82,782 on the basis of blindness. However, approximately 540,000 of those receiving benefits on the basis of disability or blindness were over the age of 65. Table 12 also indicates that approximately 2.5 million of those receiving federally administered SSI payments only receive Federal SSI payments, approximately 1,358,000 receive a combination of federally financed and State financed payments, and approximately 345,000 receive State financed supplementation only.

Table 13 shows the trends in the numbers of persons receiving federally administered SSI payments from December 1975 through September 1986, both by reason for eligibility and by age categories. There was a steady decline in the number of SSI recipients from 1975 until 1983. However, in the last 3 years the number of SSI recipients has increased by 334,000.

In summary, the trends in the nature of the SSI population show the following:

—A steady decline in the number of persons receiving SSI benefits on the basis of age.

—A steady increase from 107,000 in December 1975 to 238,000 in 1986 of the number of disabled and blind children under 18 receiving SSI benefits.

—A steady increase from 201,000 in December 1975 to 536,000 in August 1986 in the number of persons receiving benefits on the basis of disability or blindness who were age 65 and older.

—A recent sharp increase of 270,000 between 1983 and 1986 in the number of persons ages 22–64 receiving benefits on the basis of disability or blindness which had been preceded by a decline of 62,000 between 1978 and 1982.

Characteristics of SSI recipients receiving benefits on the basis of age

Age.—As shown in table 14, of those SSI recipients receiving benefits on the basis of age, i.e., age 65 or older, 39.5 percent are 80 years of age or older. This is in contrast to the fact that only 21 percent of the population 65 years old or older are age 80 or older.

Sex.—As shown in table 15, 74.6 percent of those receiving benefits on the basis of age are women.

Race.—Twenty-one percent of aged SSI recipients are black compared to 8 percent of the total population age 65 and older who are black.

Other income.—As shown in table 16, 71 percent of the SSI recipients receiving benefits on the basis of age also receive Social Security benefits. Only 1.9 percent have earned income.

Characteristics of adult SSI recipients receiving benefits on the basis of disability or blindness

Major disabling diagnosis.—Approximately 40 percent of the SSI disabled are eligible on the basis of mental impairments. Approximately 20 percent are on the basis of circulatory disorders. In comparison, only 12 percent of the Social Security disability insurance recipients are eligible on the basis of mental impairments. Circulatory disorders account for 29 percent of the disabling impairments and skeletal impairments account for 19 percent of the impairments of disability insurance recipients. Related to the nature of the impairments of the SSI disabled is the fact that in December 1984, 633,305 or 29 percent of the adult disabled receiving SSI benefits had a representative payee. Representative payees are individuals, agencies or institutions selected by the Social Security Administration to receive and use SSI payments on behalf of the SSI recipient when it has been found necessary by reason of the mental or physical limitations of the recipient.

Age.—When a person who is receiving SSI on the basis of blindness or disability becomes age 65, the Social Security Administration does not convert the individual to eligibility on the basis of age. As shown in table 13, over 19 percent of the SSI adult population receiving benefits on the basis of disability are over age 65.

Sex.—In September 1986, 59 percent of those receiving SSI benefits on the basis of disability and 57 percent on the basis of blindness were women.

Race.—In September 1986, 56.8 percent of those receiving SSI on the basis of disability were white; 27.7 percent were black; 4.3 percent were other races; and in 11.2 percent of the cases, race was not reported.

Other income.—As shown in table 16, 33 percent of the disabled and 39 percent of the blind received Social Security benefits.

Of the disabled receiving SSI, 5 percent had earned income in September 1986. Of the blind, 6.8 percent had earned income in that month.

Characteristics of disabled or blind children receiving SSI

In a study completed in 1979, it was found that 15 percent of all SSI children were in foster care and under the protective custody of State welfare departments or other social welfare agencies or institutions. For over one-half of these children their main disability was mental retardation. They had lived away from their parents an average of 7.5 years and had little or no contact with their parents. In two-thirds of the cases, the children had been placed voluntarily in foster care by their parents.

For those SSI children not in foster care, 42 percent lived in households that had received AFDC or State or local general assistance during the previous year. For the disabled children not in foster care receiving SSI benefits, mental retardation was the main disability in 27 percent of the cases. Other disabling conditions for this group of children included: other diseases of the nervous

system (epilepsy, muscular dystrophy, etc.) 15 percent; other mental conditions (schizophrenia, psychosis, etc.) 15 percent; and congenital anomalies (spina bifida, Down's syndrome and hydrocephalus, etc.) 11 percent.

TABLE 12.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS AND AVERAGE MONTHLY AMOUNT, BY REASON FOR ELIGIBILITY AND TYPE OF PAYMENT, SEPTEMBER 1986

Type of payment	Total	Aged	Blind	Disabled
	Number of persons			
Total	4,231,782	1,476,547	[1] 82,782	[2] 2,672,453
Federal SSI payments	3,886,733	1,295,135	74,300	2,517,298
Federal SSI payments only	2,528,417	895,546	44,204	1,588,667
Federal SSI and State supplementation	1,358,316	399,589	30,096	928,631
State supplementation	1,703,365	581,001	38,578	1,083,786
State supplementation only	345,049	181,412	8,482	155,155
	Average monthly amount			
Total	$240.06	$173.01	$255.67	$275.69
Federal SSI payments	211.50	146.60	235.28	244.19
State supplementation	113.79	112.89	159.85	112.63

[1] Includes approximately 23,000 persons aged 65 and over.
[2] Includes approximately 517,000 persons aged 65 and over.
Source: Office of Research and Statistics, Social Security Administration.

TABLE 13.—SSI: NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS, BY REASON FOR ELIGIBILITY AND AGE: DECEMBER 1975, DECEMBER 1978, JUNE 1982, SEPTEMBER 1983, SEPTEMBER 1985, AND SEPTEMBER 1986

[In thousands]

Reason for eligibility and by age categories	December 1975	December 1978	June 1982	September 1983	September 1985	September 1986
Total	4,314	4,217	3,957	3,898	4,128	4,232
Reason for eligibility:						
Aged	2,307	1,968	1,626	1,528	1,516	1,476
Blind	74	77	78	79	82	83
Under 18	3	5	6	6	7	7
18–21	4	3	4	5	5	5
22–64	46	43	44	45	47	48
65 and over	22	25	24	23	23	23
Disabled	1,933	2,172	2,253	2,292	2,530	2,673
Under 18	104	161	188	191	218	231
18–21	90	111	117	122	134	138
22–64	1,559	1,581	1,514	1,517	1,677	1,787
65 and over	179	319	434	462	502	517

TABLE 13.—SSI: NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS, BY REASON FOR ELIGIBILITY AND AGE: DECEMBER 1975, DECEMBER 1978, JUNE 1982, SEPTEMBER 1983, SEPTEMBER 1985, AND SEPTEMBER 1986—Continued

[In thousands]

Reason for eligibility and by age categories	December 1975	December 1978	June 1982	September 1983	September 1985	September 1986
Age:						
Under 18	107	166	194	197	225	238
18–21	93	115	121	127	139	143
22–64	1,605	1,624	1,558	1,562	1,724	1,835
65 and over	2,508	2,312	2,084	2,013	2,041	2,016

TABLE 14.—NUMBER AND PERCENTAGE DISTRIBUTION OF ALL ADULTS RECEIVING FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY AND AGE, DECEMBER 1985

Age	Total	Aged	Blind	Disabled
Total number	3,872,696	1,504,469	73,960	2,294,267
Total percent	100.0	100.0	100.0	100.0
18–21	2.6	.....	4.5	4.3
22–29	8.5	.....	13.7	13.9
30–39	8.9	.....	14.9	14.6
40–49	7.6	.....	10.4	12.5
50–59	11.7	.....	15.2	19.3
60–64	8.1	.....	10.0	13.4
65–69	12.2	14.9	8.6	10.6
70–74	13.0	20.3	7.7	8.4
75–79	11.6	25.3	5.7	2.8
80 or older	15.6	39.5	9.3	.2

TABLE 15.—NUMBER AND PERCENTAGE DISTRIBUTION OF ALL PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY, RACE, AND SEX, SEPTEMBER 1986

Race and sex	Total	Aged	Blind	Disabled
Total number	4,231,782	1,476,547	82,782	2,672,453
Total percent	100.0	100.0	100.0	100.0
Race:				
White	53.8	48.1	55.8	56.9
Black	25.2	20.8	26.1	27.7
Other	5.3	7.2	5.7	4.3
Not reported	15.6	23.9	12.3	11.2
Sex and race:				
Men	35.6	25.4	42.6	41.0
White	19.5	11.1	24.9	23.9
Black	8.6	4.6	10.5	10.7
Other	2.2	2.5	2.6	2.0
Not reported	5.4	7.2	4.6	4.4
Women	64.4	74.6	57.4	59.0
White	34.3	37.0	30.9	32.9
Black	16.7	16.2	15.7	16.9
Other	3.2	4.7	3.1	2.3
Not reported	10.3	16.7	7.7	6.8

TABLE 16.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS AND PERCENT IN CONCURRENT RECEIPT OF INCOME AND AVERAGE MONTHLY AMOUNT, BY REASON FOR ELIGIBILITY AND TYPE OF INCOME, SEPTEMBER 1986

Type of income	Total	Reason for eligibility		
		Aged	Blind	Disabled
Total number	4,231,782	1,476,547	82,782	2,672,453
	Number			
Social security benefits	2,073,719	1,049,025	31,903	992,791
Other unearned income	813,327	302,813	16,904	493,610
Earned income	162,015	20,646	5,608	135,761
	Average monthly income			
Social security benefits	$259.77	$264.16	$273.05	$254.72
Other unearned income	109.73	84.42	113.39	125.13
Earned income	163.12	150.56	448.34	129.38

Source: Office of Research and Statistics, Social Security Administration.

TABLE 17.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS AND UNEARNED INCOME (OTHER THAN SOCIAL SECURITY) AND AVERAGE MONTHLY UNEARNED INCOME BY TYPE OF INCOME, SEPTEMBER 1986

Type of income	Number [1]	Average [2]
Total	813,327	$110
Veterans' benefits	118,268	133
Railroad retirement	5,940	250
Black lung benefits	1,770	225
Employment pensions	31,324	99
Workmen's compensation	1,983	195
Support and maintenance in kind	153,472	73
Support from absent parents	16,340	113
Asset income	115,245	11
Assistance based on need	10,109	95
Other	358,876	147

[1] With unearned income other than social security benefits.
[2] Monthly amount of unearned income.
Source: Office of Research and Statistics, Social Security Administration.

Special SSI Benefits, Continued Medicaid Services, and Related Provisions for the Working Disabled

The Disability Amendments of 1980 (Public Law 96–265) amended the SSI law to include provisions intended to lessen the work disincentives for SSI disabled recipients who risked the loss of SSI and Medicaid when they increased their work effort and earnings in spite of the continuation of their disability.

Included in these amendments was the authorization of the section 1619 SSI demonstration program under which special cash benefits and/or Medicaid coverage is provided to disabled individuals who are able to work in spite of severe medical impairments.

Public Law 98–460 extended the temporary authority of section 1619 through June 30, 1987. At the request of the Committee on Ways and Means, the Department of Health and Human Services conducted a study to evaluate the effectiveness of section 1619 in reducing work disincentives and to determine the characteristics of individuals benefiting from its protection. The report was released on July 30, 1986.

Most recently, Public Law 99–643, the Employment Opportunities for Disabled Americans Act, made section 1619 permanent and made other modifications in the section 1619 program and other work related provisions of SSI law to be effective July 1, 1987.

Summary of components of current law affecting SSI working disabled

The following provisions of SSI law are in effect through June 30, 1987, as related to the special provisions of SSI law intended to remove work disincentives for the severely disabled who are able to work in spite of their severe impairments. As explained later, the

provisions for a Trial Work Period and Extended Period of Eligibility are repealed effective July 1, 1987. In addition the modifications in the section 1619 program are effective July 1, 1987.

Substantial Gainful Activity (SGA): SSI law provides that the Secretary of HHS is required to prescribe the criteria for determining when employment or earnings from employment demonstrate an individual's ability to engage in substantial gainful activity (SGA), and is therefore, no longer considered disabled under the regular SSI disability program. Current regulations have established that average countable earnings of over $300 a month over an extended period, generally not less than 6 months, indicate that an individual is able to engage in SGA.

Impairment Related Work Expenses: The SSI disability program provides for a deduction from earnings of extraordinary impairment related work expenses for purposes of determining whether an individual is engaging in SGA.

Section 1619 Program: Special SSI benefits and continuation of Medicaid for the working disabled: Section 1619(a) of the SSI law provides that an individual who lost eligibility for SSI because he or she worked and demonstrated the ability to perform SGA, but who continued to have a disabling impairment, might become eligible for special SSI benefits until their countable income reached the SSI income disregard "breakeven point." In a State with no supplementation, as shown in table 3, this earned income eligibility limit is $765 per month in 1987. People who receive the special SSI benefits continue to be eligible for Medicaid on the same basis as regular SSI recipients. States have the option of supplementing the Federal benefits standard for those entitled to benefits under this provision. The "breakeven point" increases $2 for every $1 of State supplementation above the Federal SSI benefit standard.

Information available from the Social Security Administration showed that in January 1986, 992 individuals were receiving these special SSI benefits. Sixty percent of such individuals were ages 18–29 compared to 23 perent of all disabled SSI recipients ages 18–64 being under the age of 30.

Under section 1619(b), individuals can continue to be eligible for Medicaid even if their earnings take them past the SSI income disregard "breakeven point." This special eligibility status, under which the individual is considered a blind or disabled individual receiving SSI benefits for purposes of Medicaid eligibility, applies as long as the individual: (1) continues to be blind or have a disabling impairment; (2) except for earnings, continued to meet all the other requirements for SSI eligibility; (3) would be seriously inhibited from continuing to work by the termination of eligibility for Medicaid services; and (4) had earnings that are not sufficient to provide a reasonable equivalent of the benefits (SSI, State supplementary payments, and Medicaid) that would have been available if he or she did not have those earnings.

In making an initial determination under the fourth criterion, the Social Security Administration decided to compare the individual's gross earnings to a "threshold" amount; i.e., the average expenditures for Medicaid benefits for disabled SSI cash recipients in the individual's State of residence. According to the Social Security Administration, from data obtained in January 1986, 8,106 former

SSI recipients retained their Medicaid eligibility under the provisions of section 1619(b). Similar to the section 1619(a) population, over 57 percent of such individuals were age 18–29 compared to 23 percent of all disabled recipients of SSI, ages 18–64.

According to the section 1619 report released by HHS in July 1986, over 55,000 individuals had benefited from the section 1619 program since its inception in January 1981. Approximately 40 percent of the individuals who utilized the section 1619 provisions are mentally retarded. While the preponderance of the section 1619 participants are eligible under the Medicaid-only section 1619(b) provisions, it should be noted that only 30 percent of the section 1619(b) participants have earnings which exceed the SSI earned income breakeven point. The reason is that many of the SSI recipients also receive unearned income in the form of social security benefits of which only $20 a month is disregarded. The result is that an individual with such income becomes ineligible for cash benefits at a much lower total income level than if their income is only in the form of earned income with the higher income disregards; i.e., $85 plus one-half the remaining earnings.

Trial Work Period: A disabled SSI recipient is permitted to work up to 9 months—not necessarily consecutive—before a determination is made as to whether earnings constitute substantial gainful activity (SGA). The Trial Work Period (TWP) provision requires determinations by SSA as to whether earnings in a particular month (over $75) constitutes a month of trial work. Eligibility for regular SSI benefits is retained during this time as long as the individual's unearned and earned income (as reduced by income disregards) does not exceed the SSI benefit standard.

When an individual completes a total 9 months of trial work and is determined to be performing work constituting SGA, he or she loses eligibility for regular SSI benefits 3 months after the 9-month period. This Trial Work Period provision is repealed effective July 1, 1987.

Extended Period of Eligibility: Following the close of the Trial Work Period, there is an additional one-time 15 month period (consecutive months; working or not) of an Extended Period of Eligibility (EPE). During this period, an individual who had not been receiving a regular SSI payment because of work activities above the $300 SGA level may be reinstated to regular SSI benefit status without having his medical condition reevaluated. (Repealed effective July 1, 1987.)

An overview of SSI disability policy changes related to new assumptions for evaluating work efforts by the severely disabled

The section 1619 program was originally enacted as a temporary demonstration program for the purposes of determining whether the continuation of cash and medical benefits for the severely disabled would be effective in lessening the dependence of the disabled on SSI benefits. However, certain provisions of the section 1619 law and the one-time Trial Work Period/Extended Period of Eligibility provisions were still based on the assumption that a continuing work effort by a disabled individual was an indication of the immediate or eventual capability of the individual to become self-supporting. That is, it was assumed that a severely disabled in-

dividual would be able to make a steady progression from regular SSI status, to special cash benefit status under section 1619(a), to medicaid-only status under section 1619(b) and eventually become self supporting.

Sections 1619 provisions which expressed this assumption included (1) an individual eligible under 1619(b) who has a decrease in income cannot be directly reinstated to cash benefit status; and (2) if an individual has been eligible under 1619 and some event causes him or her to be ineligible for a month, the individual cannot return to 1619 status. (Temporary loss of eligibility may occur for example, because of: one-time increases in earnings for a month; excess resources; or changes in living arrangements; e.g., temporary hospitalization.)

A primary goal of the 1986 disability amendments was to ensure ongoing assistance to the severely disabled who are able to do at least some work but who oftentimes have fluctuating levels of income, and whose ability to work changes because of health reasons or the availability of special support services which may be needed to enable the individual to work.

The House and Senate reports accompanying the legislation which became Public Law 99-643 explains the new assumptions which led to the amendments to section 1619 and the repeal of the SSI provisions for a Trial Work Period and Extended Period of Eligibility:

> The Committee amendment also recognizes the reality that severely impaired individuals who make work attempts may not be able to follow a steady progression from SSI status, to special benefit status under section 1619(a), to medicaid only status under section 1619(b), and then to a status of complete independence. In practice, such individuals tend to undergo a more varied experience, often involving some setbacks which would require them to reestablish eligibility for an earlier category of benefits. To accommodate this reality, the Committee provides a relatively simple transition, in either direction, among the various categories of benefits. Actual determination of eligibility are only required in limited and specified circumstances (although the Secretary retains the discretion to review the continuing eligibility of recipients on a periodic basis and whenever there is an indication that there may have been a change in medical condition or other element of eligibility).
>
> Further, the Committee amendment would make explicit in statute the current administrative practice, which requires the filing of a new application for SSI, only in cases where the individual has been eligible for a period in excess of 12 consecutive months. While the 15-month automatic reentitlement period is being eliminated by these amendments, a disabled person who becomes ineligible for SSI or 1619 benefits for a period of 12 or fewer months may be reinstated without having first to be determined disabled.

Summary of 1986 SSI Disability Amendments to section 1619

The 1986 SSI disability amendments made the section 1619 provisions in SSI law permanent.

The amendments also will provide for ongoing assistance for those disabled individuals who, under the old law, in effect until July 1, 1987, are in jeopardy of losing their cash benefits or medicaid or the ability to be reinstated to such assistance when there was a significant change in their income or other situation affecting their eligibility.

The amendments to the section 1619 provisions of SSI law can be explained by adding to the present categories of SSI-related eligibility (i.e., SSI, 1619(a), and 1619(b)) the new SSI-related eligibility category of "suspended eligibility status." This new category is a way to identify those individuals who were previously eligible within the last 12 months for SSI or under 1619(a) or 1619(b). Therefore, the categories of SSI-related eligibility under the new law, are as follows:

—eligible for regular SSI cash benefits;
—eligible for cash benefits under 1619(a);
—eligible for Medicaid only under 1619(b); and
—suspended eligibility status; i.e., was eligible within previous 12 months under regular SSI or 1619.

The amendments are based on the assumption that an individual who previously has been found to be eligible for SSI on the basis of disability, but is able to work in spite of a disability, needs ongoing assistance until there is a finding of substantial evidence of medical improvement.

The new general rule for those individuals who previously had been found eligible for SSI disability status is to allow movement to another category or eligibility status. The new rule will allow for freedom of movement from one eligibility status to another when an individual has increases or decreases in earned or unearned income or is otherwise temporarily ineligible under SSI or section 1619 for some other reason.

The changes in present law which are effective July 1, 1987, will provide for this freedom of movement and thus greater assurances of ongoing assistance are as follows:

Repeal of Trial Work Period-Extended Period of Eligibility: The current law's Trial Work Period and Extended Period of Eligibility provisions would be repealed. These provisions currently allow for a *one-time-only* reinstatement to regular SSI or section 1619 status if an individual is unable to maintain earnings or otherwise meets the SSI or section 1619 eligibility requirements. As described below, a new "suspended eligibility status" for those previously determined eligible for SSI disability benefits would be available to the SSI disabled who are able to work periodically in spite of their impairment.

Reinstatement to SSI or section 1619 status from "suspended eligibility status": An individual who becomes ineligible for SSI or section 1619(a) or 1619(b) one or more times, will, for up to 12 months for each such time of ineligibility, be considered in a "suspended eligibility status." During any of these times of "suspended eligibility status" an individual can be reinstated to regular SSI or section

1619 status without having to be determined eligible for SSI on the basis of disability as if he or she were a new applicant.

Movement from section 1619(b) medicaid-only status to cash benefit status: In comparison to present law, an individual eligible for medicaid only under section 1619(b) who has a decrease in income, can become eligible for cash benefits under section 1619(a) or regular SSI without having to be determined eligible for SSI on the basis of disability as if he or she were a new applicant.

Medical condition reviews: The new law will explicity require two levels of reviews of the medical condition of the individual when there is movement between the eligibility cagetories: These are:

—within 12 months of an individual becoming eligible under section 1619, a medical review of the individual's case will be required to determine the continuation of the disabling impairment which was the basis of the individual being found to be disabled under SSI.

—promptly after an individual has been reinstated to cash benefit status under regular SSI of section 1619(a) from medicaid-only status under section 1619(b) or reinstated to regular SSI or section 1619 status from a "suspended eligibility status" certain higher earnings individuals will have a review of medical eligibility to determine that there is no substantial evidence of medical improvement. This "medical improvement review" would apply only to those individuals who had earnings before moving to cash benefit status from section 1619(b) or sometime during the time of "suspended eligibility status" which exceeded the SSI Federal income standard earned income disregards breakeven point; i.e., $765 a month.

Countable earnings and "equivalent" benefits in determining eligibility for Medicaid under section 1619(b). Effective July 1, 1987, the following would be added to the consideration of whether an individuals earnings provide a "reasonable equivalent" of benefits which the individual otherwise would be entitled to in the absence of earnings: impairment related work expenses of the disabled; work expenses of the blind; cost of a plan for achieving self support (PASS); and publicly funded attendant care services or personal care assistance. It also requires that the "reasonable equivalent" of benefits criteria under section 1619(b), be based on information and data that are updated at least once a year.

TABLE 18.—NUMBER OF PERSONS RECEIVING SSI PAYMENTS BY STATE, SEPTEMBER 1986

State	Federally administered				State administered total [2]
	Total [1]	Aged	Blind	Disabled	
Total	4,231,782	1,476,547	82,782	2,672,453	277,130
Alabama	130,749	59,331	1,785	69,633	19,181
Alaska	3,521	1,006	67	2,445	[3] 4,726
Arizona	34,566	10,499	658	23,379	3,296
Arkansas	73,633	33,246	1,327	39,060	.....
California	702,273	271,751	19,985	410,537	.....

TABLE 18.—NUMBER OF PERSONS RECEIVING SSI PAYMENTS BY STATE, SEPTEMBER 1986—Continued

State	Federally administered				State administered
	Total [1]	Aged	Blind	Disabled	total [2]
Colorado	30,871	9,313	440	21,118	34,170
Connecticut	27,672	6,430	520	20,722	14,999
Delaware	7,638	1,974	171	5,493	.....
District of Columbia	16,217	3,928	219	12,070	.....
Florida	187,423	78,171	3,075	106,177	9,971
Georgia	154,010	58,418	2,795	92,797	.....
Hawaii	11,567	4,878	177	6,512	.....
Idaho	8,690	2,115	139	6,436	2,991
Illinois	143,014	30,603	2,370	110,041	46,809
Indiana	50,161	11,243	1,259	37,659	447
Iowa	28,372	8,500	1,070	18,802	.....
Kansas	21,613	5,682	361	15,570	.....
Kentucky	100,615	33,323	2,103	65,189	7,205
Louisiana	127,229	47,619	2,262	77,348	.....
Maine	22,303	7,693	270	14,340	.....
Maryland	52,449	14,244	787	37,415	1,161
Massachusetts	112,546	51,181	4,853	56,512	.....
Michigan	125,898	28,699	2,100	95,099	.....
Minnesota	33,740	9,726	648	23,366	11,250
Mississippi	111,761	49,474	1,772	60,515	.....
Missouri	79,995	26,816	1,154	51,995	[4] [5] 10,568
Montana	7,935	1,899	128	5,908	.....
Nebraska	14,123	3,898	255	9,970	7,863
Nevada	8,377	3,658	506	4,213	.....
New Hampshire	6,403	1,737	124	4,542	4,535
New Jersey	94,626	29,746	1,250	63,630	.....
New Mexico	27,124	9,272	511	17,341	247
New York	363,752	112,162	4,113	247,477	.....
North Carolina	139,454	53,134	2,836	83,484	13,197
North Dakota	6,885	2,420	90	4,375	17
Ohio	131,958	25,573	2,498	103,887	.....
Oklahoma	59,131	23,822	956	34,353	54,279
Oregon	26,395	6,492	574	19,329	13,265
Pennsylvania	168,666	44,889	3,060	120,717	.....
Rhode Island	16,078	5,092	217	10,769	.....
South Carolina	86,870	32,812	1,891	52,167	2,861
South Dakota	8,664	3,060	143	5,461	362
Tennessee	129,003	48,148	2,027	78,828	.....
Texas	262,249	121,230	4,752	136,267	.....
Utah	9,124	1,803	223	7,098	7,869
Vermont	9,416	2,889	127	8,400	.....

TABLE 18.—NUMBER OF PERSONS RECEIVING SSI PAYMENTS BY STATE, SEPTEMBER 1986—Continued

State	Federally administered				State administered total [2]
	Total [1]	Aged	Blind	Disabled	
Virginia	86,795	30,773	1,472	54,550	5,002
Washington	49,560	11,569	727	37,264	.....
West Virginia	43,135	10,430	702	32,003	.....
Wisconsin	74,484	23,187	1,106	50,191	.....
Wyoming	2,434	699	50	1,685	859
Unknown	13	2	.....	11	.....
Other areas:					
Northern Mariana Islands [3]	602	288	17	297	.....

[1] Includes persons with Federal SSI payments and/or federally administered State supplementation, unless otherwise indicated.
[2] Represents September 1986 data. Excludes data for Iowa, Louisiana, and Ohio; data not available.
[3] Estimated data.
[4] Represents mandatory supplementation data only.
[5] Represents August 1986; data not available for September 1985.

Source: Office of Research and Statistics, and Office of Supplemental Security Income, Social Security Administration.

TABLE 19.—STATE SSI SUPPLEMENTS FOR AGED INDIVIDUALS WITHOUT COUNTABLE INCOME LIVING INDEPENDENTLY [1]

State	July 1975	July 1980	Jan. 1985	Jan. 1986	Jan. 1987	Percent increase (constant dollars) 1975–87 [1]
Alaska [2]	142	235	261	269	292	1
California	101	164	179	197	220	7
Colorado	27	55	58	58	58	5
Connecticut [3]	NA	NA	NA	NA	NA	.....
District of Columbia	0	15	15	15	15	.....
Hawaii	17	15	5	5	5	—86
Idaho	63	74	78	72	73	—43
Illinois [3]	NA	NA	NA	NA	NA	.....
Maine	10	10	10	10	10	—51
Massachusetts	111	137	129	129	129	—43
Michigan	12	24	27	28	29	18
Minnesota [4]	31	34	35	35	35	—45
Nebraska	67	75	61	62	58	—58
Nevada	55	47	36	36	36	—68
New Hampshire	12	46	27	27	27	10
New Jersey	24	23	31	31	31	—37
New York	61	63	61	72	72	—42
Oklahoma	27	79	60	64	64	16

TABLE 19.—STATE SSI SUPPLEMENTS FOR AGED INDIVIDUALS WITHOUT COUNTABLE INCOME LIVING INDEPENDENTLY [1]—Continued

State	July 1975	July 1980	Jan. 1985	Jan. 1986	Jan. 1987	Percent increase (constant dollars) 1975–87 [1]
Oregon	17	12	2	2	2	—94
Pennsylvania	20	32	32	32	32	—22
Rhode Island	31	42	54	56	56	—11
South Dakota	0	15	15	15	15	.....
Utah	0	10	10	10	10	.....
Vermont	29	41	53	56	57	—4
Washington [5]	36	43	38	28	28	—62
Wisconsin	70	100	100	102	102	—29
Wyoming	0	20	20	20	20	.....
Median [6]	31	43	36	36	36	.....

[1] The percentage decrease in constant dollars were computed by inflating July, 1975 to January, 1987 by the CPI–U price index. The December 1986 figure of 331.1 was used.
[2] 1975 and 1980—less if shelter costs less than $35 monthly.
[3] State decides benefit on a case-by-case basis. It is impossible to come up with a valid average of the supplements paid by the State.
[4] Payment level for Hennepin County. State has 10 geographic payments levels.
[5] State has two geographic payment levels—highest levels are shown in table. Sum paid in King, Pierce, Kitsap, Snohomish, and Thurston Counties.
[6] Among the States with a payment, Connecticut and Illinois are classified as having a payment above the median.

TABLE 20.—STATE SSI SUPPLEMENTS FOR AGED COUPLES WITHOUT COUNTABLE INCOME LIVING INDEPENDENTLY

State	July 1975	July 1980	Jan. 1985	Jan. 1986	Jan. 1987	Percent increase (constant dollars) 1975–87 [1]
Alabama	9	0	0	0	0	—100
Alaska [2]	183	338	371	383	427	14
California	251	389	448	485	529	3
Colorado	133	229	278	284	116	—57
Connecticut [3]	NA	NA	NA	NA	NA	.....
District of Columbia	0	30	30	30	30	.....
Hawaii	28	24	9	9	9	—84
Idaho	49	80	46	40	44	—56
Illinois [3]	NA	NA	NA	NA	NA	.....
Maine	15	15	15	15	15	—51
Massachusetts	173	214	202	202	202	—43
Michigan	18	36	40	42	44	20
Minnesota [4]	38	44	66	66	66	—15

TABLE 20.—STATE SSI SUPPLEMENTS FOR AGED COUPLES WITHOUT COUNTABLE INCOME LIVING INDEPENDENTLY—Continued

State	July 1975	July 1980	Jan. 1985	Jan. 1986	Jan. 1987	Percent increase (constant dollars) 1975–87 [1]
Nebraska	67	114	89	92	86	−37
Nevada	106	90	74	74	74	−66
New Hampshire	0	42	21	21	21	.....
New Jersey	13	12	25	25	25	−6
New York	76	79	76	93	93	−40
Oklahoma	54	158	120	128	128	16
Oregon	17	10	0	0	0	−100
Pennsylvania	30	49	49	49	49	−20
Rhode Island	59	79	102	105	106	−12
South Dakota	0	15	15	15	15	.....
Utah	0	20	20	20	10	.....
Vermont	61	76	96	101	104	−16
Washington [5]	40	44	37	22	22	−73
Wisconsin	105	161	161	164	164	−23
Wyoming	0	40	40	40	40	.....
Median [6]	57	63	66	66	66	.....

[1] The percentage decrease in constant dollars were computed by inflating July 1975 to January 1986 by the CPI–U price index. The December 1986 figure of 333.1 was used.

[2] 1975 and 1980—less if shelter costs less than $35 monthly.

[3] State decides benefit on a case-by-case basis. It is impossible to come up with a valid average of the supplements paid by the State.

[4] Payment level for Hennepin County. State has 10 geographic payment levels.

[5] State has two geographic payment levels—highest levels are shown in table. Sum paid in King, Pierce, Kitsay, Snohomish, and Thurston Counties.

[6] Among the States with a payment Illinois is not classified. Connecticut is classified as having a payment above the median.

Section 10. Title XX Social Services Block Grant Program

Title XX Social Services 1974–1981

In 1974, Congress enacted Public Law 92–672, which created a new title XX of the Social Security Act authorizing an entitlement for States for social services funds with certain goals for the program, public participation planning requirements, limitations on activities which could be funded, and eligibility requirements. Prior to that time the States were entitled to receive Federal matching funds for social services under the various public assistance titles of the Social Security Act. In 1972, Congress established a $2.5 billion annual ceiling on the entitlement with each State's share determined on the basis of its population relative to the total population of all the States. When title XX was enacted, the $2.5 billion ceiling was retained along with the allocation formula. Table 1 shows the title XX funding levels from the first year of the program through present law.

By fiscal year 1981 the entitlement ceiling for allocation to States for social services was $2.9 billion. In addition, $16.1 million of title XX funds was available for the territories for social services and $75 million was available to the States for staff training costs related to title XX activities. A total of $2,991,100,000 was available to States and territories for social services and training in fiscal year 1981 under title XX. As part of Public Law 96–272, enacted in 1980, the ceiling was increased from $2.9 billion to $3 billion in fiscal year 1982 and was increased by $100 million a year until it reached $3.3 billion in fiscal year 1985.

Title XX Social Services Block Grant

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35) amended title XX of the Social Security Act to establish a "Block Grant to States for Social Services" which combined the funding for social services for the States and territories and social services staff training. Public Law 97–35 reduced the title XX entitlement ceiling to $2.4 billion for fiscal year 1982 and provided for increases to $2.45 billion in fiscal year 1983, $2.5 billion in fiscal 1984, $2.6 billion in fiscal 1985 and $2.7 billion in fiscal 1986 and years thereafter.

The emergency jobs bill (Public Law 98–8), enacted in March 1983, appropriated an additional $225 million for fiscal year 1983 but which also was available for carryover to fiscal year 1984. These additional funds were allocated to the States on the basis of a formula intended to respond to the needs of the unemployed served by the jobs bill. One-half of the funds were allocated on the basis of population; one-third based on the number of unemployed individuals in the State; and one-sixth among those States whose

average unadjusted unemployment rate from June 1982 through November 1982 was 9.4 percent or higher. In October 1983, as part of legislation to extend the Federal supplemental compensation program (Public Law 98–135) the title XX ceiling was increased by $200 million for fiscal 1984 to $2.7 billion and by $100 million for fiscal year 1985 to $2.7 billion.

Title XX social services block grant funds are allocated to the States on the basis of population. The allotments for Puerto Rico, Guam, the Virgin Islands and the Northern Marianas from the national total are based on their allocation for fiscal year 1981 reduced to reflect the new total funding level. The Federal funds are available to States without a State matching requirement, compared to the 25-percent State matching required for most of the title XX funds available to States under the old title XX law.

Table 1 shows the title XX funding levels since fiscal year 1976 and through the current law's entitlement ceiling for fiscal year 1987 and future years. Table 2 shows the total funds available to each State and territory under title XX in fiscal years 1986 through 1988. As part of the sequestration order for fiscal year 1986 under the Gramm-Rudman-Hollings legislation enacted in 1985, there was a reduction of 4.3 percent or $116 million in title XX funds available to States and territories in fiscal year 1986. The allocations to States in fiscal year 1986 in table 2 reflects the reduced funding level.

Special Title XX Funding for Child Day Care Staff and Parent Training Related to Preventing Child Abuse

Because of the concern by Congress of reports of child sexual abuse in day care centers, a $25 million increase in title XX funding for fiscal year 1985 was appropriated for use by the States in providing training of child day care staff, State licensing and enforcement officials, and the parents of children in child day care. The earmarked funds were included in the continuing resolution for fiscal year 1985 (Public Law 98–473). States were required to have in effect by September 30, 1985, procedures for screening and conducting background and criminal history checks of child care staff, or one-half of the day care training allotment was to be deducted from the regular State title XX allocation in fiscal year 1986 or 1987. According to HHS estimates, only six States enacted such procedures by the required date.

As required by Public Law 98–473, in January 1985, the Secretary of HHS distributed to States a Model Child Care Standards Act with particular attention to staff training and supervision, employment history checks, and parent visitation.

TABLE 1.—TITLE XX SOCIAL SERVICES BLOCK GRANT FUNDING LEVELS

[In millions of dollars]

Fiscal year	Entitlement ceiling
1976	[1]$2.575
1977	[1]2.796
1978	[1]2.791
1979	[1]2.991
1980	[2]2.791
1981	[2]2.991
1982	[3]2.400
1983	[4]2.675
1984	2.700
1985	[5]2.725
1986	[6]2.584
1987 and future years	2.700

[1] Included $16 million for Puerto Rico, Guam and the Virgin Islands and $59 million in fiscal year 76, $80 million in fiscal year 77 and $75 million in fiscal years 78 and 79 for title XX staff training.

[2] Included $16.1 million for Puerto Rico, Guam, the Virgin Islands and the Northern Marianas and $75 million for title XX staff training.

[3] Public Law 97–35 eliminated separate funding for title XX staff training.

[4] Includes $225 million appropriated in the emergency jobs bill (Public Law 98–8).

[5] Includes $25 million earmarked for training of day care providers, licensing officials and parents including training in the prevention of child abuse in child care settings.

[6] The entitlement ceiling for fiscal year 1986 is $2.7 billion. However, the Gramm-Rudman-Hollings legislation sequestration of funds for fiscal year 1986 reduced the funding by $116 million to $2.584 billion.

TABLE 2.—TITLE XX SOCIAL SERVICES BLOCK GRANT ALLOCATION BY STATE

	Fiscal year—		
	1986 actual	1987 estimate	1988 estimate
Total	$2,583,900,000	$2,700,000,000	$2,700,000,000
Alabama	43,477,511	45,363,931	45,222,719
Alaska	5,260,341	5,684,703	5,859,497
Arizona	32,539,507	34,710,797	35,843,025
Arkansas	25,565,966	26,706,735	26,530,811
California	276,459,437	291,306,927	296,517,528
Colorado	34,472,327	36,131,973	36,337,877
Connecticut	34,461,329	35,859,107	35,696,819
Delaware	6,655,044	6,696,446	6,995,407
District of Columbia	6,841,748	7,083,140	7,040,393
Florida	117,287,153	124,790,603	127,829,251
Georgia	62,948,493	66,363,224	67,209,890
Hawaii	11,234,531	11,812,813	11,853,953
Idaho	10,861,149	11,380,776	11,302,868
Illinois	126,138,602	130,873,235	129,729,932
Indiana	60,170,059	62,508,995	61,845,245

TABLE 2.—TITLE XX SOCIAL SERVICES BLOCK GRANT ALLOCATION BY STATE—Continued

	Fiscal year—		
	1986 actual	1987 estimate	1988 estimate
Iowa	31,902,541	33,084,972	32,435,295
Kansas	26,631,201	27,718,612	27,554,255
Kentucky	40,786,930	42,328,299	41,904,961
Louisiana	48,737,853	50,730,291	50,396,171
Maine	12,585,295	13,143,034	13,091,083
Maryland	47,266,268	49,445,548	49,395,220
Massachusetts	63,332,847	65,919,817	65,477,908
Michigan	99,595,228	103,177,362	102,209,417
Minnesota	45,509,181	47,319,469	47,157,140
Mississippi	28,410,284	29,537,717	29,387,457
Missouri	54,580,250	56,937,986	56,559,326
Montana	8,972,243	9,368,391	9,289,720
Nebraska	17,538,163	18,259,266	18,062,095
Nevada	9,784,916	10,357,529	10,526,850
New Hampshire	10,531,681	11,107,910	11,224,142
New Jersey	82,013,152	85,441,088	85,047,052
New Mexico	15,363,729	16,190,034	16,307,620
New York	194,017,994	201,636,420	199,998,907
North Carolina	66,792,162	70,092,389	70,347,701
North Dakota	7,467,718	7,799,413	7,703,945
Ohio	118,011,948	122,243,856	120,833,844
Oklahoma	36,218,442	37,496,302	37,125,141
Oregon	29,233,929	30,401,792	30,219,708
Pennsylvania	130,630,236	135,307,304	133,306,362
Rhode Island	10,487,767	10,937,369	10,886,742
South Carolina	35,845,060	37,519,041	37,642,487
South Dakota	7,687,363	8,026,801	7,962,617
Tennessee	51,450,403	53,629,489	53,556,475
Texas	172,680,076	181,785,436	184,107,412
Utah	17,779,753	18,782,259	18,500,714
Vermont	5,765,516	6,025,785	6,016,950
Virginia	60,949,791	64,077,974	64,173,298
Washington	47,222,355	49,445,548	49,586,413
West Virginia	21,579,508	22,193,081	21,773,485
Wisconsin	52,175,198	54,186,590	53,702,681
Wyoming	5,644,721	5,809,767	5,724,537
Puerto Rico	13,365,000	13,965,517	13,965,517
Guam	445,500	465,517	465,517
Virgin Islands	445,500	465,517	465,517
Northern Mariana Islands	89,101	93,103	93,103

Source: Department of Health and Human Services.

Planning and Administrative Requirements

As under previous title XX law, States are required to make available for public comment a report on how the funds are to be used, including information about the types of social services, and related training and administrative activities to be funded and the characteristics of the individuals to be served. This report is also to be submitted to the Department of Health and Human Services. At least every 2 years, the State must prepare a post-expenditure report. The law gives States considerable flexibility regarding the content and format of these reports. States are required only to show that their expenditures are in keeping with the Federal spending requirements established in the law. HHS has not published a national summary of these reports. At least every 2 years, States must arrange for an independent audit of these expenditures.

While there are now fewer Federal requirements than previously regarding public participation in the development of a State's title XX plan, a survey of States conducted by the American Public Welfare Association shows almost all the States have indicated that they have no plans to reduce the amount or substantially change their methods of public participation.

Title XX Program Goals

The purpose of the title XX social services block grant program is to provide assistance to States to enable them to furnish services directed at the five goals of the statute:

—Achieving or maintaining economic self-support to prevent, reduce, or eliminate dependency;

—Achieving or maintaining self-sufficiency, including reduction or prevention of dependency;

—Preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating or reuniting families;

—Preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of less intensive care; and

—Securing referral or admission for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions.

States are given wide discretion as to the services to be provided and the groups who may be eligible for services, usually low income families and individuals. In addition to supporting social services, the law allows States to use their allotment for staff training, administration, planning, evaluation, and purchasing technical assistance in developing, implementing, or administering the State social service program. States decide what amount of the Federal allotment to spend on services, training, and administration.

Some restrictions are placed on the use of title XX funds. Funds cannot be used for the following: most medical care except family planning; rehabilitation and certain detoxification services; pur-

chase of land, construction, or major capital improvements; most room and board except emergency short-term services; educational services generally provided by public schools; most social services provided in and by employees of hospitals, nursing homes, and prisons; cash payments for subsistence; child day care services that do not meet State and local standards; and wages to individuals as a social service except wages of welfare recipients employed in child day care.

Recipients of Title XX Funded Social Services

In fiscal year 1979, when the ceiling on title XX services funds was $2.9 billion, over 7.2 million individuals were recipients of title XX services.

Under the old title XX law, eligibility for title XX funded social services was determined by the States within certain parameters set by Federal law.

The 1981 Budget Reconciliation Act eliminated the federally mandated priority that at least 50 percent of the Federal title XX funds received by a State must be expended for services to recipients of AFDC, SSI or medicaid.

The 1981 Budget Reconciliation Act also eliminated the following provisions in the title XX program related to targeting services to low income individuals and families:

—With certain exceptions, no person with gross family income higher than 115 percent of the State's median income for a family of four (adjusted for family size) could receive title XX funded services. The exceptions were protective services for abused or neglected children or adults, family planning services and information and referral services.

—States had to charge fees reasonably related to income for services to individuals or families with income higher than 80 percent of the State's median income or the median income of all States, whichever was lower, and they could, at their option, charge fees for services to persons below that income level.

While States no longer have to set eligibility standards or target funds within certain parameters set by Federal title XX law, many States had chosen income eligibility criteria lower than the Federal maximum income eligibility limits under the old title XX law. Therefore, it could be expected that the income eligibility criteria that States now use do not exceed that of previous years and most likely would be lower because of the reductions in the title XX ceiling.

In fiscal year 1980, 27 percent of those receiving title XX services were AFDC recipients; 11 percent were SSI recipients; 4 percent were medicaid recipients who were not AFDC or SSI recipients; 21 percent of the recipients received services provided without regard to income or welfare status; and 37 percent were eligible according to income criteria.

Types of Social Services Provided Under Title XX

Under the title XX social services block grant program each State must submit a report to the Secretary of Health and Human Services on the intended use of the funds. These pre-expenditure

reports only are required to include information about the types of activities to be funded and the characteristics of the individuals to be served. Therefore, there is very limited information on the use of title XX funds by the States.

Table 3 is a list of the primary services offered by the largest number of States taken from a summary of the pre-expenditure reports for fiscal year 1986 prepared by the Department. Currently, the most frequently provided services are: home-based services, day care for children, protective and emergency services for children and adults, and adoption services. Fiscal year 1979 is the most recent year for which data are available on the percentage of total title XX dollars spent for various types of social services.

In addition to the pre-expenditure reports, another source of data on title XX is from the Voluntary Cooperative Information System (VCIS) of the American Public Welfare Association funded by HHS. The VCIS is a national data base comprised of aggregate State program statistics. Although there are certain limitations to these data, such as unavailability of data for all States, the following presents information on services and recipients for fiscal year 1983, the second year of the SSBG implementation.

Services: Data from 32 States submitting information to the VCIS indicated that the following services accounted for over half of all services provided to recipients: information and referral services, 14.5 percent; protective services for children, 12.3 percent; home-based services, 10.6 percent; counseling, 9.5 percent; and child day care services, 7.5 percent.

Recipients: Data from 32 States show that the number served during fiscal year 1983 was over 5 million recipients.[1]

Homemaker/chore services include, for example, an individual trained by the local welfare agency to go into the home of an aged or disabled individual a few hours a week to assist with meal preparation, cleaning, and personal care to enable them to remain in their home.

Protective services for children include the activities of a child-welfare caseworker who is responsible for investigating and managing cases of child abuse or neglect. For example, a caseworker may visit a home after reports are received from a doctor or a neighbor of possible child abuse and determine whether the home situation warrants recommending removal of the children and placement in foster care.

In another situation, the caseworker will have to determine whether the child care training provided by a private family service agency to a teenage mother enables her to care for her two children who currently are in foster care.

In another situation, the caseworker may have to arrange for an emergency caretaker to stay with some children in their own home instead of being placed in an institution while their mother is in a hospital receiving emergency medical care.

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[1] A Statistical Summary of the VCIS Social Services Block Grant (SSBG) Data for fiscal year 1983. The Voluntary Cooperative Information System (VCIS), American Public Welfare Association. October 1985. pp. 11 and 13.

TABLE 3.—SERVICES TO BE PROVIDED BY THE STATES, FISCAL YEAR 1986 [1]

Services	Number of States	Services	Number of States
Home-based services	55	Prevention and intervention services	35
Day care—children	52		
Protective and emergency services—children	54	Residential care and treatment	29
Protective and emergency services—adults	46	Transportation services	33
Adoption	39	Home delivered/congregate meals	28
Disabled services	41	Special services for children and youth	28
Foster care—children	31	Health-related services	36
Information and referral services	34	Foster care—adults	18
Employment, education and training	43	Legal services	17
Family planning services	30	Substance abuse services	13
Social support services	25	Placement services	20
Day care—adults	31	Housing services	18
Counseling	38	Services for unmarried parents	10

[1] Includes 50 States, the District of Columbia, and the four eligible territories.

Source: Department of Health and Human Services.

Transfer of Funds Among Block Grants

Public Law 97-35, which created the title XX block grant, gave States the authority to transfer up to 10 percent of their annual allotment to one or any combination of the four health care block grants and/or the low-income home energy assistance block grant. (The four health care block grants are: the preventive health and health services block grant; the primary care block grant; the maternal and child health services block grant; and the alcohol, drug abuse, and mental health services block grant.) In turn, most other block grant statutes allow States to transfer funds to the title XX program.

According to the fiscal year 1986 pre-expenditure reports submitted to HHS by States, only four States planned to transfer title XX funds to other programs: three States (Alabama, Florida, and Kentucky) planned to transfer funds to the alcohol, drug abuse, and mental health services block grant program, and one State (North Carolina) planned to transfer funds to the maternal and child health block grant program. Eighteen States planned to transfer funds from the low-income home energy assistance block grant to supplement title XX funds.

Title XX Social Services Program Information: Pre-1981 and Now

Prior to 1981, information which was available at the national level on the uses made by States of their allocations under the title XX social services program was primarily from two sources.

As part of the requirements for public participation in the title XX planning process, States were required to publish and make available to the public, a Comprehensive Annual Services Plan (CASP). This plan was also sent to the Department of Health and Human Services and was the basis for a summary and an analysis of State's planned use of title XX funds which was published by the Department each year until 1980.

While the Comprehensive Annual Services plan did not allow for an aggregation of the various types and State-defined categories of social services, it did provide in one document a compilation of the States' title XX plans. It allowed for an analysis of States uses of Federal title XX funds for such target groups as the aged, the disabled, and children, and for an analysis of the various types of services which the States had provided for in their title XX funded programs.

In addition to forwarding to HHS their title XX Comprehensive Annual Services Plan, States were also required to provide information to HHS under a system which attempted to provide for a way to aggregate State data into commonly defined categories of social services activities. This system was the Social Services Reporting Requirements (SSRR) and produced reports which aggregated the data from the States which included over 1,000 different State-defined social service categories into 41 Federal categories.

Current Title XX Pre-expenditure Reports

Since 1981, States have only been required to submit to the Department of Health and Human Services, an annual "pre-expenditure report". This financial reporting document (compared to a program plan) provides very minimal information on the uses which States intend to make of their title XX allocations.

In an attempt to determine trends and current expenditures by the States for certain social services categories, HHS was asked to utilize the pre-expenditure reports and summarize expenditures for day care services for children; protective services for children; and home care services. For those three categories, and for only those States that included such services in their reports for fiscal years 1980, 1983, 1984, and 1986, the estimates for their title XX program expenditures for each of those service categories have been listed in table 4.

As can be seen from the data in table 4, there are major changes in a State's reported expenditures for a certain service which, without further clarification, limits the value of the use of only pre-expenditure reports for understanding trends or current expenditures for certain social service categories.

Some States provide as part of the annual pre-expenditure reports a summary of the States intended use of title XX funds similar to the summaries included in the pre-1981 Comprehensive Annual Services Plans. Two examples of these State summaries are

included in tables 5 and 6 for the States of Alabama and Pennsylvania. The summaries from both States include estimates of the number of people to be served—Alabama uses monthly numbers and Pennsylvania uses annual numbers. The Alabama summary also includes information on the funds to be transferred from the Low Income Home Energy Assistance block grant and transfer from title XX to the Alcohol, Drug Abuse and Mental Health Services block grant.

TABLE 4.—PRE-EXPENDITURE DATA FOR SELECTED STATES FOR THREE SELECTED SERVICES: FISCAL YEARS 1980, 1983, 1984, AND 1986

[In thousands of dollars]

State	1980	1983	1984	1986	Percent change 1980–86
	Home Based Services				
Alabama	5,198	5,478	4,171	4,480	−13.8
Arkansas	2,018	2,184	1,060	1,479	−26.7
Delaware	509	570	588	461	−9.4
Georgia	5,227	4,329	4,329	3,018	−42.3
Illinois	28,690	60,090	2,032	26,010	−9.3
Indiana	6,630	6,213	7,050	7,308	10.2
Iowa	13,004	853	900	352	−97.3
Kentucky	3,707	2,049	3,018	2,219	−40.1
Mississippi	2,127	2,492	3,065	3,182	49.6
New Mexico	3,558	2,811	3,692	1,888	−46.9
Pennsylvania	8,093	7,496	7,039	7,901	−2.4
South Carolina	4,990	3,625	4,891	5,373	7.7
Virginia	12,424	13,808	14,102	6,348	−48.9
West Virginia	9,224	4,294	5,095	5,268	−42.9
Wyoming	1,118	911	950	1,292	15.6
	Protective Services for Children				
Alabama	9,843	12,627	15,291	13,702	39.2
Arkansas	1,561	1,859	2,213	2,283	46.3
Delaware	1,052	1,886	3,107	3,031	188.1
Georgia	8,351	4,445	4,445	3,253	−61.0
Illinois	4,829	16,497	13,472	1,157	−76.0
Indiana	6,657	9,662	11,718	10,545	58.4
Iowa	6,138	7,042	6,081	3,806	−38.0
Kentucky	4,445	4,697	4,336	9,063	103.9
Mississippi	1,290	1,784	2,759	2,653	105.7
New Mexico	1,700	1,951	1,571	1,938	13.9
Pennsylvania	15,297	2,256	3,556	2,526	−83.5
South Carolina	5,329	5,806	5,980	7,086	33.0
Virginia	6,654	10,962	11,290	12,312	85.0
West Virginia	3,253	2,703	3,703	3,627	11.5
Wyoming	68	59	60	134	97.2

TABLE 4.—PRE-EXPENDITURE DATA FOR SELECTED STATES FOR THREE SELECTED SERVICES: FISCAL YEARS 1980, 1983, 1984, AND 1986—Continued

[In thousands of dollars]

State	1980	1983	1984	1986	Percent change 1980–86
	Day Care for Children				
Alabama	18,062	10,301	7,859	7,699	−57.4
Arkansas	1,851	1,392	2,657	3,238	74.9
Delaware	4,240	1,862	1,980	2,004	−52.8
Georgia	21,339	14,752	14,752	14,117	−33.8
Illinois	40,911	46,928	35,687	40,870	−0.1
Indiana	9,500	8,435	9,891	7,407	−22.0
Iowa	4,537	2,149	1,662	2,969	−34.6
Kentucky	4,295	3,530	4,111	4,171	−2.9
Mississippi	15,363	6,193	6,691	6,167	−59.9
New Mexico	3,388	2,220	2,407	2,241	−33.9
Pennsylvania	74,811	41,806	42,419	42,419	−43.3
South Carolina	12,520	10,923	10,727	12,072	−3.6
Virginia	11,527	6,933	6,344	2,937	−74.5
West Virginia	6,856	4,042	3,807	3,700	−46.0
Wyoming	1,337	1,024	1,433	2,328	74.2

Source: Department of Health and Human Services.

TABLE 5.—ALABAMA: ESTIMATED NUMBER OF CLIENTS AND EXPENDITURES UNDER TITLE XX BLOCK GRANT FOR SOCIAL SERVICES, 1985–86

[Dollars in thousands]

Service	Estimated number served monthly	Title XX estimated expenditures	Total estimated expenditures
Adoption services	900	$477	$536
Day care/day health for adults	725	913	1,205
Day care for children	6,523	7,699	10,011
Foster care for adults	640	157	176
Foster care for children	5,684	6,411	7,270
Homemaker services for adults	3,100	3,989	4,531
Homemaker services for children	480	490	571
Meals service	150	30	40
Preventive and supportive services	1,750	380	427
Protective services for adults	2,900	3,027	3,396
Protective services for children	6,400	13,702	15,221
Residential care for delinquents	60	$525	$700
Residential care for individuals with exceptional needs	400	3,566	4,759
Transportation	2,610	564	719

TABLE 5.—ALABAMA: ESTIMATED NUMBER OF CLIENTS AND EXPENDITURES UNDER TITLE XX BLOCK GRANT FOR SOCIAL SERVICES, 1985–86—Continued

[Dollars in thousands]

Service	Estimated number served monthly	Title XX estimated expenditures	Total estimated expenditures
Total mental health transfer [1]		4,500	
Total		[2] 46,431	[3] 49,561

[1] Transfer of $4.5 million to Alcohol and Drug Abuse and Mental Health Services Block Grant.
[2] Includes $1 million transfer from Low Income Energy Assistance Block Grant.
[3] Includes Federal, state, and local funds.

TABLE 6.—PENNSYLVANIA: ESTIMATED TITLE XX FUNDS AND PERSONS SERVED BY PROGRAM AREA AND SERVICE, 1985–86

[Dollars in thousands]

Service	Estimated Federal funds	Estimated persons to be served (annually)
Adult day care	$2,532	1,563
Attendant care	4,700	560
Child welfare social service	11,450	5,000
Community residential mental retardation service	5,965	384
Community residential rehabilitation	4,329	2,224
CAO—support service	11,251	215,700
County social services	16,100	310,000
Employment	10,454	144,423
Family planning	5,020	87,380
Family support service	3,201	2,633
Information and referral	2,395	221,600
Legal	6,688	39,300
Protective	2,526	26,000
Protective-emergency shelter	3,000	37,000
Residential social service for adjudicated delinquents	1,500	500
Service planning/case management	5,551	85,268
Subsidized child day care	42,419	14,139
Transportation	82	2,300
Administration	5,850	
Total	145,063	1,195,974

Section 11. Child Welfare, Foster Care and Adoption Assistance Program—Title IV, Parts B and E

In 1984, State and local agencies received reports of nearly 2 million cases of suspected child abuse or neglect. During fiscal year 1984 nearly one-half million children spent some time in foster care. An estimated $1.3 billion of funds authorized under the Social Security Act will be spent for child welfare, foster care and adoption activities in fiscal year 1987.

Historical Development of Child Welfare Programs

Many of the original Thirteen Colonies had laws against certain forms of child maltreatment. However, a private voluntary agency, the New York Society for the Prevention of Cruelty to Children was the first specialized child protective agency in 1875.

By the 1920's, most States had passed specific laws against child maltreatment, often within the context of their newly established juvenile courts.

Child Welfare Services in the Social Security Act of 1935

Within the context of the broader concerns for the deprivation of families and children in the Depression of the 1930's, the original Social Security Act authorized grants to States for child welfare services which were intended to assist in the development of organizational structures for the delivery of child welfare services.

AFDC Foster Care—1961

Federal matching funds for foster care maintenance payments for AFDC children placed in foster care was authorized in 1961 and eventually became a required component of States' AFDC program. It was established in response to some States denying a family AFDC benefits when a child's home was found to be unsuitable.

1962 Social Services Amendments

As part of the amendments which emphasized the use of social services to prevent the need for dependence on cash assistance welfare programs, the 1962 amendments required that each State extend child welfare services to all political jurisdictions within the State.

Title XX Social Services Amendments

Protective services for children was one of the goals of the $2.5 billion title XX social services legislation which was enacted in 1974. These funds are the largest single source of Federal funds for child welfare services, with an estimated 20 percent used for child welfare activities by the States.

Child Abuse and Neglect Reporting Laws

During the 1960's, nearly all the States enacted State laws patterned after a "model state law" published by the U.S. Childrens Bureau which required physicians to report suspected cases of child abuse and neglect. The Child Abuse Prevention and Treatment Act of 1974 provided Federal funds to States that established comprehensive child abuse and neglect reporting and investigatory systems.

Adoption Assistance and Child Welfare Amendments of 1980 (P.L. 96-272)

The AFDC foster care program and a new program of Federal matching funds of adoption assistance for "special needs" children were included in a new title IV-E of the Social Security Act. Financial incentives were included related to increased funds under the title IV-B child welfare services program to encourage States to have certain services and procedures to prevent inappropriate use of foster care.

Independent Living Programs for Older Foster Children

The 1985 Budget Reconciliation Act established a new program of grants to States for assisting older foster children prepare for independent living.

SUMMARY OF FEDERAL FUNDING OF CHILD WELFARE, FOSTER CARE, AND ADOPTION ACTIVITIES UNDER THE SOCIAL SECURITY ACT

The Social Security Act contains four primary sources of funds available to States for child welfare, foster care, and adoption activities. These funds include both nonentitlement authorizations and authorized entitlements; i.e., a State is entitled to claim Federal matching funds for those activities which qualify under the requirements of the Federal law. Those programs are:

—Title IV-B Child Welfare Services program (nonentitlement authorization)
—Title IV-E Foster Care program (authorized entitlement)
—Title IV-E Adoption Assistance program (authorized entitlement)
—Title XX Social Services Block Grant (authorized entitlement with funding ceiling; State discretion as to portion of State's allocation used for child welfare and adoption activities)

Table 1 shows the funds that have been used or allocated to States under titles IV-B and IV-E in fiscal years 1981 through 1985 and the estimated amounts for fiscal years 1986 and 1987. Under the title XX Social Services Block Grant program, States may choose what portion of ther allocation they will spend on child welfare, foster care and adoption activities. Under the current title XX $2.7 billion ceiling, it is estimated that about $500 million of title XX funds are spent on such services.

In addition to the funds allocated to the States or available on an entitlement basis, $15 million was appropriated for fiscal year 1987 for activities authorized under Section 426 of title IV-B for direct Federal grants to public and private entities for child welfare staff training and child welfare research and demonstration projects.

Funds available to States from the title IV-B child welfare program and the title XX Social Services program may be used for services to families and children without regard to their eligibility for AFDC. Federal matching funds for foster care maintenance payments under title IV-E are only provided in those cases where the child would have been eligible for AFDC if still in the home. All children determined to have "special needs" related to their being adopted are eligible under the title IV-E adoption assistance program.

TABLE 1.—FEDERAL FUNDING FOR CHILD WELFARE, FOSTER CARE, AND ADOPTION ACTIVITIES UNDER TITLES IV–B AND IV–E OF THE SOCIAL SECURITY ACT, 1982–88

[In thousands of dollars]

Fiscal year	Title IV–E, Independent Living Program	Title IV–B, Child Welfare Services[1]	Title IV–E, Foster Care State Claims	State use of FC Funds for IV–B, CWS	Adoption Assistance, title IV–E	Total, titles IV–B and IV–E
1981		163,550	308,776	74,109	486	546,921
1982		156,326	373,849	20,560	3,961	554,696
1983		156,326	391,265	32,610	12,564	592,765
1984		165,000	449,715	32,176	24,207	671,098
1985		200,000	489,506	[4]19,592	37,208	746,306
1986 (est.)		[2] 198,099	[3] 568,311	[4]14,896	52,611	833,917
1987 (est.)[5]	45	222.5	602,595	10,000	81,753	951,845
1988 (est.)[5]	45	222.5	640,501	10,000	93,270	1,011,271

[1] States that had not been determined by HHS to have implemented Section 427 protections, received about 10 percent less funds that would have been their allocation under the appropriation for fiscal years 1982 and 1983, 15 percent less in fiscal year 1984 and 30 percent less in fiscal year 1985. Public Law 96–272 requires HHS to reallocate such funds to those States that do meet the Section 427 requirements for the year.

[2] Funding level for fiscal year 1986 reflects a 4.3 percent reduction in the $207 million IV–B child welfare funds appropriated due to the sequestration of 4.3 percent of the funds under the Gramm-Rudman-Hollings legislation.

[3] Funding level for title IV–E foster care includes a $6 million reduction from funds that would otherwise be provided to States because of the denial of Federal matching of State increases in foster care payment rates required under the fiscal year 86 sequestration order under the Gramm-Rudman-Hollings legislation.

[4] Reduction from previous year in the amount transferred is due largely to the increase in title IV–B which limits the amount that a State can transfer under an "optional" ceiling to the additional amount that a State would have received if the IV–B appropriation was the full authorization of $266 million.

[5] Current services budget.

Overview of Federal and State Roles in Child Welfare Activities

The basic governmental responsibility for responding to children in need of some form of protection from harm or neglect is with the individual States.

The Federal role in the overall governmental response to child abuse or neglect has been primarily by way of making available Federal matching funds to States for certain specific activities and programs. To qualify for such funds States have to: establish certain administrative structures; provide certain services; entitle certain individuals to assistance; or establish certain due process and review procedures.

Each State has their own mix of legal authority and child welfare administrative procedures and services that is utilized in responding to reports of child abuse or neglect and in responding to families and children referred to a governmental agency because of needs related to delinquency, homelessness or family conflict.

Figure 1 on the following page attempts to illustrate the interrelationships among:

—States' legal authority in their child abuse and neglect laws;

—The alternative courses of action which can be taken in response to children who have been reported as abused or neglected or otherwise referred for services to the responsible agency and;

—The services and procedural requirements related to a State being eligible for certain Federal child welfare and foster care funds.

In addition, included in the flow chart are estimates of the number of children in fiscal year 1984 who entered the system and what action was taken—if such information is known.

Figure 1. CHILDREN ENTERING CHILD WELFARE AND FOSTER CARE PROGRAMS - FY 84

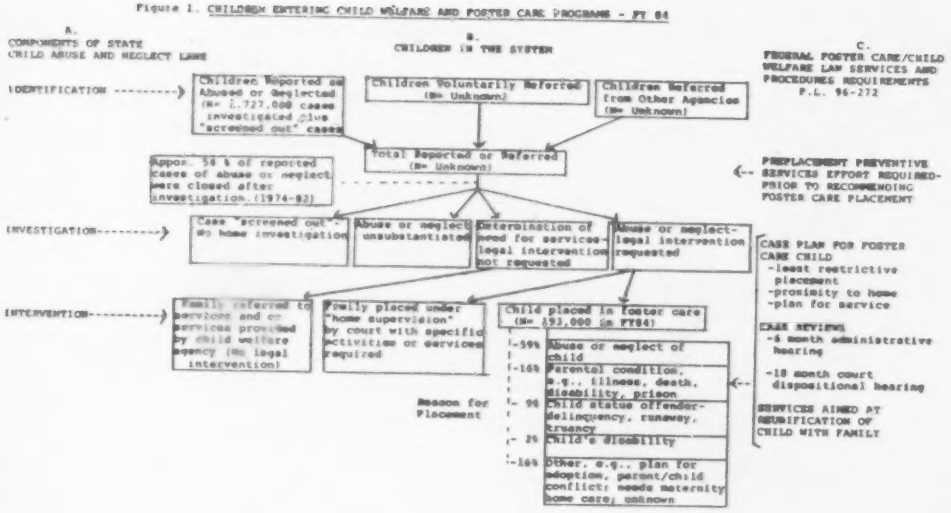
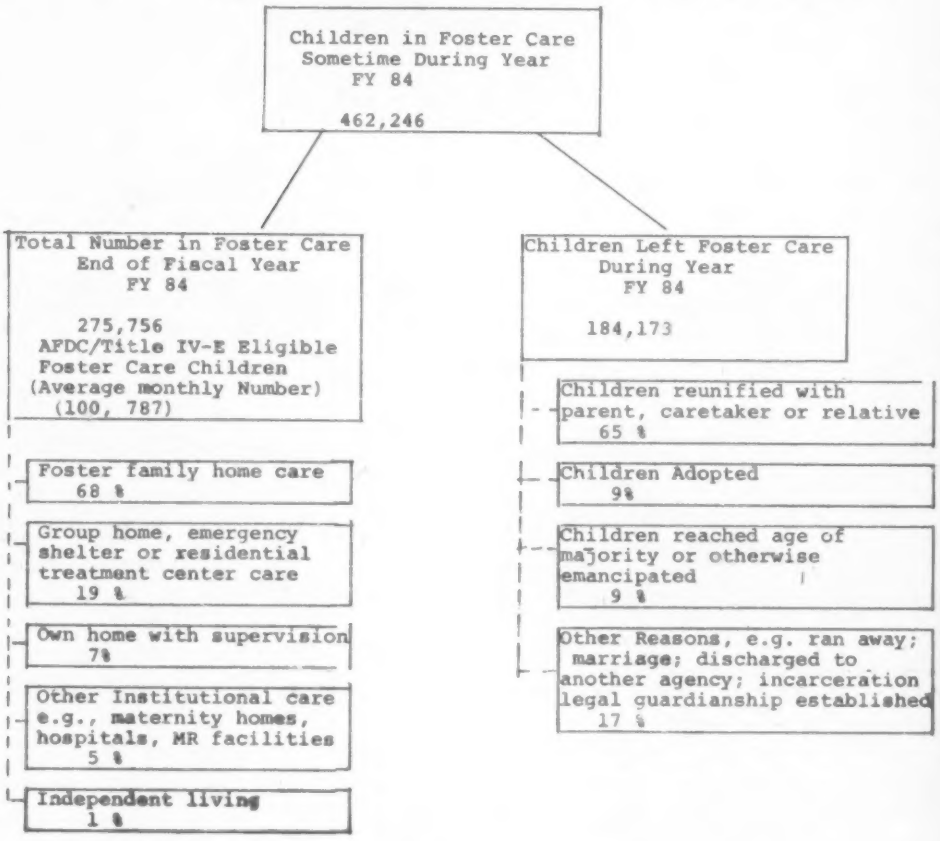

A.
COMPONENTS OF STATE CHILD ABUSE AND NEGLECT LAWS
B.
CHILDREN IN THE SYSTEM
C.
FEDERAL FOSTER CARE/CHILD WELFARE LAW SERVICES AND PROCEDURES REQUIREMENTS P.L. 96-272
IDENTIFICATION
Children Reported as Abused or Neglected (N= 1,727,000 cases investigated plus "screened out" cases)
Children Voluntarily Referred (N= Unknown)
Children Referred from Other Agencies (N= Unknown)
Total Reported or Referred (N= Unknown)
Approx. 50 % of reported cases of abuse or neglect were closed after investigation. (1976-82)
PREPLACEMENT PREVENTIVE SERVICES EFFORT REQUIRED-PRIOR TO RECOMMENDING FOSTER CARE PLACEMENT
INVESTIGATION
Case "screened out" - No home investigation
Abuse or neglect unsubstantiated
Determination of need for services-legal intervention not requested
Abuse or neglect-legal intervention requested
CASE PLAN FOR FOSTER CARE CHILD
-least restrictive placement
-proximity to home
-plan for service
CASE REVIEWS
-6 month administrative hearing
-18 month court dispositional hearing
INTERVENTION
Family referred to services and or services provided by child welfare agency (No legal intervention)
Family placed under "home supervision" by court with specific activities or services required
Child placed in foster care (N= 393,000 in FY84)
Reason for Placement
~59% Abuse or neglect of child
~16% Parental condition, e.g., illness, death, disability, prison
~ 9% Child status offender-delinquency, runaway, truancy
~ 2% Child's disability
~16% Other, e.g., plan for adoption, parent/child conflict; needs maternity home care; unknown
SERVICES AIMED AT REUNIFICATION OF CHILD WITH FAMILY

Figure 2. CHILDREN IN FOSTER CARE - FY 84
Types of Foster Care; Reasons for Leaving Foster Care


Children in Foster Care Sometime During Year FY 84
462,246
Total Number in Foster Care End of Fiscal Year FY 84
275,756
AFDC/Title IV-E Eligible Foster Care Children (Average monthly Number)
(100, 787)
Foster family home care
68 %
Group home, emergency shelter or residential treatment center care
19 %
Own home with supervision
7%
Other Institutional care e.g., maternity homes, hospitals, MR facilities
5 %
Independent living
1 %
Children Left Foster Care During Year FY 84
184,173
Children reunified with parent, caretaker or relative
65 %
Children Adopted
9%
Children reached age of majority or otherwise emancipated
9 %
Other Reasons, e.g. ran away; marriage; discharged to another agency; incarceration legal guardianship established
17 %

Components of State Child Abuse and Neglect Laws

Every State has laws authorizing designated governmental agencies and the courts to investigate reports of suspected child abuse or neglect and to intervene into the relationship between a child and their parents in cases of abuse or neglect.

In all States, the statutory approach to child abuse and neglect contain the following basic components: identification; investigation; and intervention.

Identification

All States have some statutory provision for mandatory reporting of non-accidental injury and neglect of children. These provisions generally include:

Definitions of reportable conditions.

Persons required to report.—Those required to report include, e.g., physicians; nurses; social workers; child care workers; and police officers.

"Hotlines".—States have 24-hour-a-day telephone "hotlines" as a means for others in the community to report suspected cases of abuse or neglect.

Investigation

State laws designate those public agencies with the legal authority to investigate reports of child abuse or neglect and generally include a public social services agency, an agency with responsibility related to youth and the police. There are variations in the requirements in State laws and policies as to the allowable time lapse between the time of the receipt of the report and the home investigation. Generally, cases involving older children reported to have been neglected have a longer required response time in comparison to cases of alleged abuse of younger children—especially sexual abuse.

The agency which receives the reports generally has the following options:

"Screen out" the report.—In most States some criteria as been established to determine those reports not warranting home investigation.

Unsubstantiated report.—The agency investigates the report and based on information gathered determines no need for further action or services and case is closed. (As discussed later, definitions of "substantiated" varies considerably from State to State and in actual practice within a State.)

No abuse or neglect/services needed.—The agency makes a home investigation and find insufficient evidence to indicate abuse or neglect but does determine need for social services or other assistance needed by the family.

Abuse or neglect found/legal intervention needed.—The agency investigates and determines that there is sufficient evidence that abuse or neglect has taken place and that some legal action is needed for emergency and/or long term intervention by the agency and the courts.

Intervention

Intervention into the actual relationship between a child and their parents or legal caretaker may, with considerable variation among the States, take one of the following forms:

Emergency removal of the child.—There is considerable variation among the States as to who has authority for the emergency removal of a child from the home for short term placement in cases of emergency; e.g., life threatening or severe injury cases. A HHS study of the practices in the three States of Colorado, New York, and Texas indicated these differences. In Colorado the police can remove a child but a child welfare worker must have a court order. If the child is removed by a "police hold" a petition must be filed with the court within 48 hours. In New York, the caseworker in conjunction with the police can immediately remove a child, but a petition must be filed with the court the next day. In Texas, the child welfare worker may remove a child without the police, but must file a petition with the court within 48 hours.

Court-ordered "home supervision."—In some States, the result of a family or juvenile court finding that a child has been "neglected" may be that the court orders agency supervision of the family's home life, counselling for the parents or child or other social services.

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Court-ordered removal of the child from the home and placement in foster care.—All States have laws which provide for the removal of a child from their home and placement in foster care pursuant to "a judicial determination that continuation in the home would be contrary to the welfare of the child."

Children Reported as Abused or Neglected or Referred to Child Welfare Agencies

As shown in figure 1, in fiscal year 1984 an estimated nearly 1.9 million cases of suspected child abuse and neglect were reported to child welfare and other agencies responsible for receiving such reports. Of these reports, the responsible agencies investigated approximately 1,727,000 cases. This is more than double the estimate of 669,000 for 1976. These estimates are developed by the American Humane Association under a contract with HHS as part of the annual National Study on Child Abuse and Neglect. The study is based on a voluntary information system whereby States are asked to provide information on reports they have received on suspected abuse and neglect.

In a report prepared by the American Humane Association under a contract with HHS in 1984, the lack of a uniform definition of what is a "substantiated" case of child abuse or neglect was cited as the major definitional problem in the field of child protective services. The report stated that, a substantiated case in some instances is a case that has been or could be adjudicated in a court under the laws of the State as being child abuse or neglect; in others, it means that the case worker determined that a case file should be established for the family, i.e., that some type of services are needed whether or not the case could be found in a court as meeting the definition of abuse or neglect. For this reason, the 1984 study by the American Humane Association chose not to include substantiation rates.

As indicated in figure 1, and according to the 1984 American Humane Association report, 54 percent of the cases that were investigated for the period of 1976–82 were closed after investigation. 36 percent were provided with services and the remaining 10 percent were still under investigation at the time the report was made by the agency. The 1984 report stated that research suggests that as abuse and neglect reports increased over the years but resources and staff did not, caseworkers began to substantiate mainly cases they were able to serve and cases which were judged most serious. Also, some cases were listed as unsubstantiated if the agency did not have the staff to investigate a report they received.

There are no reliable numbers regarding the number of children voluntarily referred by parents or referred by other agencies. However, it appears that there is considerable variation among the States as to the role of the public child welfare agency in the State related to the care of children who come into care through the juvenile justice system, or are in care because of the mental or physical handicap of the child.

An HHS study compared practices in three counties in three different States—Dallas County, Texas, Jefferson County, Colorado, and Monroe County, New York. In New York and Colorado, chil-

dren who came to the attention of the juvenile justice agency but were not judged to require a secure detention facility, were referred to the child welfare agency for placement. In contrast, in Dallas County, Texas, the child welfare agency did not accept children referred by the juvenile justice agency nor did they accept children whose parents wished to place them in foster care. The result was the average age of children entering foster care in Dallas County was 6 compared to 11 years of age in Jefferson and Monroe County.

Children in Foster Care

Figure 2 shows the number of children in foster care sometime during fiscal year 1984 to total 462,246. The following information regarding the characteristics of children in foster care is based on the information gathered through the Voluntary Cooperative Information System (VCIS) operated by the American Public Welfare Association and financed by a grant from the Department of Health and Human Services. The data gathered through VCIS is not limited to children for whom States claim Federal matching funds under the title IV-E foster care program. Instead, the data is based on all the children in foster care: i.e., residing outside their home under the case management and responsibility of the primary State child welfare agency, or a child placing agency under contract with the State.

As shown in figure 1, of the 193,000 children placed in foster care in fiscal year 1984, an estimated 59 percent were placed because they had been abused or neglected. Some 16 percent of the children in foster care were placed because of a parental condition, such as, the parent's illness, handicap, incarceration or the death of the child's parents. The child's disability was the reason for placement in 2 percent of the cases. The child was placed in foster care because they were a status offender, e.g., runaway, delinquent behavior, in 9 percent of the cases in 1984. The remaining 16 percent of the cases involved such situations as: a plan for adoption; a parent-child conflict; or the need for maternity home care.

It should also be noted that approximately 29 percent of the 193,000 children shown as entering foster care in fiscal year 1984 had been in foster care before and had been, for example, reunified with their families or placed in adoption but such a placement had not been successful.

In fiscal year 1984, of the children who entered foster care, 47 percent were 11 years of age or older. Sixty percent of the children entering foster care in 1984 were white; 23 percent were black; 10 percent were hispanic; 3 percent were American Indian or Alaskan, and 1 percent were Asian.

As shown in figure 2, of the 275,756 children in foster care during the last month of fiscal year 1984, 68 percent were in foster family home care. Group homes, emergency shelters and residential treatment center care accounted for 19 percent of the children in foster care at that time. Other institutional care, such as maternity homes, hospitals and facilities for the mentally retarded was the placement for 5 percent of the children in foster care under the care or supervision of the State child welfare agency administering

the States' foster care programs. The final categories of foster care is the 5 percent of the children who were classified as being in foster care but were in their own home but under supervision, and the 1 percent in independent living.

During fiscal year 1984, as shown in figure 2, 184,173 children left foster care. Of the children who left foster care, 65 percent were reunified with their parents, relative or caretaker. Nine percent of the children who left foster care were placed for adoption or had their adoption finalized. Another 9 percent left foster care because they reached the age of majority. The other 17 percent of the children who left foster care during fiscal year 1984 left for such other reasons as: incarcertion; running away; being discharged to another agency or they were placed in legal guardianship.

The most recent survey of State's foster family care reimbursement rates was made in 1982. At that time it was found that for example, for a 6-year-old child in foster care the monthly rate was between $150 and $200 in 30 States. In 13 States the rate for such a child in a foster family home was over $200, and between $120 and $150 in another 8 States.

Title IV-E Foster Care Program

The title IV-E foster care program is an authorized entitlement under which States can claim Federal matching funds for their expenditures for foster care maintenance payments and related administrative costs for the care of certain children.

Matching and Eligibility Requirements

Federal matching for foster care maintenance payments is the same percent as the State can claim for AFDC payments which ranges from 50 percent to 78 percent and which is inversely related to the per capita income of the State. Federal matching for administrative costs is 50 percent.

States may claim Federal matching funds under title IV-E only for that portion of their foster care program which provides care for AFDC related children; i.e., children who except for their being removed from their home and being placed in foster care would be eligible for AFDC. Current HHS regulations give the following examples of allowable administrative costs for the foster care program: referral to services; preparation for and participation in judicial determinations; placement of the child; development of the case plan; case reviews; case management and supervision; recruitment and licensing of foster homes and institutions rate setting; and a proportionate share of agency overhead.

Number of Title IV-E Foster Care Children and Program Costs

As shown in Table 1, State claims for Federal matching funds for foster care is expected to increase from $309 million in fiscal year 1982 to an estimated $603 million in fiscal year 1987.

Table 2 provides State-by-State information on the monthly average number of children that States have or are expected to claim Federal matching for in fiscal year 1986. In fiscal year 1986 the number was an estimated 108,193 and has varied little from this number for a number of years. As discussed earlier, the number of

children in foster care in the States in the last month of fiscal year 1984 was 275,756. Therefore, States claim Federal matching funds for approximately 39 percent of the children in foster care. This percentage varies considerably among the States depending on such factors as to whether the States provide AFDC benefits under the AFDC unemployed parent program and thus expand the potential eligibility under the AFDC foster care program.

TABLE 2.—TITLE IV–E FOSTER CARE: EXPENDITURES; TITLE IV–B TRANSFERS; NUMBER OF CHILDREN—FISCAL YEAR 1986

State	Fiscal year 1986 Foster Care expenditures	IV–B transfer	Fiscal year 1986 average monthly number of children
Alabama	2,078,591	390,328	1,521
Alaska	17,540	0	2
Arizona	2,908,399	0	476
Arkansas	703,879	346,287	455
California	134,239,823	0	21,309
Colorado	2,721,116	0	1,804
Connecticut	3,689,777	0	1,087
Delaware	393,665	142,134	337
District of Columbia	5,752,848	0	1,186
Florida	3,475,385	0	1,308
Georgia	8,876,885	0	1,750
Hawaii	88,157	0	35
Idaho	287,120	307,927	166
Illinois	10,634,900	0	4,206
Indiana	1,112,800	1,727,531	1,368
Iowa	2,468,515	0	707
Kansas	3,995,963	643,454	1,096
Kentucky	6,382,648	0	1,587
Louisiana	11,792,443	0	2,115
Maine	2,982,636	0	681
Maryland	8,997,215	0	1,595
Massachusetts	5,325,713	0	898
Michigan	43,409,195	0	6,492
Minnesota	8,823,196	0	1,738
Mississippi	797,169	850,000	761
Missouri	13,455,393	0	2,076
Montana	1,360,904	0	311
Nebraska	3,090,347	0	743
Nevada	358,537	206,950	214
New Hampshire	1,299,788	0	469
New Jersey	16,422,601	0	3,977
New Mexico	2,649,367	0	524

TABLE 2.--TITLE IV–E FOSTER CARE: EXPENDITURES; TITLE IV–B TRANSFERS; NUMBER OF CHILDREN—FISCAL YEAR 1986—Continued

State	Fiscal year 1986 Foster Care expenditures	IV–B transfer	Fiscal year 1986 average monthly number of children
New York	149,424,297	4,213,168	17,622
North Carolina	1,932,320	207,877	1,425
North Dakota	964,275	0	262
Ohio	16,791,396	0	4,156
Oklahoma	3,691,931	0	1,003
Oregon	7,155,805	783,302	1,238
Pennsylvania	30,548,903	0	6,900
Rhode Island	2,195,803	0	348
South Carolina	1,837,812	0	862
South Dakota	620,961	129,306	281
Tennessee	1,774,183	1,547,489	1,063
Texas	11,677,355	0	2,814
Utah	963,403	0	258
Vermont	2,477,020	0	469
Virginia	3,000,931	1,371,472	1,919
Washington	3,920,889	1,139,984	1,012
West Virginia	7,688,751	0	1,039
Wisconsin	11,909,609	888,291	2,435
Wyoming	143,921	0	93
Total	568,312,079	14,895,500	108,193

Medicaid Eligibility

Children eligible under the title IV–E foster care program are eligible for Medicaid from the State in which they live. In addition, States have the option under the Federally assisted Medicaid program to provide for Medicaid eligibility for non-IV–E eligible foster care children as a special category of medically needy children.

Voluntary Foster Care Placements—Temporary Provision

A temporary provision under the Title IV–E foster care program, which is currently in effect through September 30, 1987, provides Federal matching funds to States for foster care maintenance payments for children placed in foster care under a voluntary placement agreement between the agency and parents. This option for States was originally enacted as part of the 1980 child welfare legislation (P.L. 96–272). Under the old law, eligibility for Federal foster care funds was limited to those children removed from the home as a result of a judicial determination that continuance in the home would be contrary to the child's welfare. The intent of this voluntary placement provision is to give parents the opportuni-

ty to ask for help rather than having a court order the child into care.

A voluntary placement agreement between the agency and the parents must specify, at a minimum, the legal status of the child and the rights and obligations of the parents or guardians, the child, and the agency while the child is in placement. Federal matching for a voluntarily placed foster care child does not continue after 6 months unless there has been a judicial determination that the continued placement is in the best interest of the child. Also, parents have the right to revoke the voluntary placement agreement unless the State agency obtains a judicial determination that the return of the child to the home would be contrary to the child's best interests.

In fiscal year 1986, 22 States claimed Federal matching funds for children in foster care under voluntary placement agreements and involved 1,027 children. Sixty-nine percent of the children were reunited with their families; 28 percent remained in foster care more than 6 months and received a judicial review of their situation as required by statute and the remaining 3 percent either reached the age of majority or were adopted.

Only if a State has implemented the child welfare and foster care services and procedures requirements of the 1980 legislation (as described beginning on page 571) may that State receive Federal matching funds for children placed under voluntary placement agreements.

Foster Care Funding Ceiling and Transfer of Foster Care Funds to Child Welfare Services—Temporary Provision

Under a provision of law in effect through fiscal year 1987, there is the potential for a State-by-State ceiling on Federal AFDC funding for foster care. This ceiling is intended to create financial incentives to States to implement procedures to reduce unnecessary placement or extended placement in foster care. However, the Federal mandatory ceiling on foster care funds is only in effect when title IV-B child welfare services appropriations is $266 million. This provision was also originally enacted as part of the 1980 child welfare legislation.

A State may use anyone of the following methods to calculate the most favorable ceiling: (1) the State's fiscal year 1978 Federal foster care funds increased by 33⅓ percent for fiscal year 1981, and increased thereafter by twice the increase in the CPI each year but not to exceed 10 percent each year; (2) the State's share of $100 million relative to its population under 18; or (3) for those States with foster care caseloads below the national average, the State's funds increased by a percent equal to its caseload growth but not more than 10 percent, plus the increase provided in (1).

However, States may gain flexibility in the use of Federal foster care funds under a voluntary foster care ceiling if they have implemented the child welfare/foster care services and procedures from the 1980 legislation (P.L. 96-272). A portion of the Federal foster care matching funds made available under the ceiling which are not used for foster care maintenance can be used for IV-B child welfare services. In years when the IV-B child welfare services appropriation is insufficient to trigger a mandatory foster care ceiling

a State can opt for a voluntary ceiling to gain the option to use foster care funds for child welfare services. The provision in the law which provides States this option expires September 30, 1987, concurrently with the foster care ceiling provision. Under the optional foster care ceiling, States cannot transfer more foster care funds to title IV-B services than an amount which, together with the IV-B funds it receives, exceeds the amount of IV-B funds it would have received if the IV-B appropriation for such year had been sufficient to require a ceiling on foster care funds in all States. Table 1 shows the amount that States transferred in fiscal years 1981 through 1986. Table 2 provides State-by-State data on the transfers for fiscal year 1986 which totaled $14.9 million.

Title IV-B Child Welfare Services Program

Title IV-B of the Social Security Act authorizes funds for the purpose of assisting States in providing services to children and families in need of child welfare services.

States submit a State plan which describes the uses to be made of their allocation under the title IV-B program including a child welfare staff development and training plan. There are no income or AFDC or SSI related eligibility restrictions on the use of title IV-B child welfare services funds.

Funds are allocated to the States according to a formula based on the number of children under the age of 21 and inversely with average per capita income. Federal matching is provided at the rate of 75 percent. The full authorization for the Title IV-B program is $266 million. Table 3 shows the State-by-State allocations of title IV-B funds. The title IV-B appropriation for fiscal year 1987 is $222.5 million.

TABLE 3.—TITLE IV-B CHILD WELFARE SERVICES STATE-BY-STATE ALLOCATIONS AND STATUS OF STATES COMPLIANCE WITH SECTION 427 CHILD WELFARE PROTECTIONS

[In thousands of dollars]

	Fiscal year—		States compliance with section 427—child welfare protections—fiscal year 1986
	1986 actual	1987 appropriation	
Total	198,099,000	222,500,000	
Alabama	4,207,743	4,622,322	Approved
Alaska	267,249	405,650	Not certified
Arizona	2,807,000	3,232,488	Approved
Arkansas	2,504,441	2,744,014	Approved
California	17,789,279	19,751,944	Review pending
Colorado	2,469,790	2,680,494	Approved
Connecticut	1,837,600	2,012,446	Disapproved
Delaware	528,503	569,559	Approved
District of Columbia	338,540	375,220	Disapproved
Florida	7,943,591	8,797,583	Approved
Georgia	5,810,355	6,399,237	Approved

TABLE 3.—TITLE IV–B CHILD WELFARE SERVICES STATE-BY-STATE ALLOCATIONS AND STATUS OF STATES COMPLIANCE WITH SECTION 427 CHILD WELFARE PROTECTIONS—Continued

[In thousands of dollars]

	Fiscal year—		States compliance with section 427—child welfare protections—fiscal year 1986
	1986 actual	1987 appropriation	
Hawaii	638,718	1,004,258	Not certified
Idaho	1,193,885	1,304,339	Approved
Illinois	8,815,487	9,596,806	Decision pending
Indiana	5,012,064	5,572,204	Approved
Iowa	2,571,904	2,765,875	Approved
Kansas	1,910,773	2,149,780	Approved
Kentucky	3,148,738	4,153,908	Approved
Louisiana	4,634,770	5,051,044	Approved
Maine	1,181,514	1,270,867	Approved
Maryland	3,151,178	3,439,760	Disapproved
Massachusetts	2,754,978	4,284,767	Not certified
Michigan	7,916,021	8,588,520	Decision pending
Minnesota	3,482,911	3,805,407	Approved
Mississippi	3,139,738	3,519,000	Approved
Missouri	4,403,291	4,792,114	Approved
Montana	873,748	947,129	Approved
Nebraska	1,458,189	1,587,590	Decision pending
Nevada	710,843	751,500	Approved
New Hampshire	755,976	929,734	Approved
New Jersey	4,755,746	5,241,719	Approved
New Mexico	1,586,410	1,799,798	Approved
New York	12,122,900	13,529,138	Approved
North Carolina	5,948,467	6,432,173	Approved
North Dakota	669,724	726,884	Approved
Ohio	9,027,321	10,050,645	Disapproved
Oklahoma	2,965,647	3,221,170	Approved
Oregon	2,310,843	2,586,322	Approved
Pennsylvania	9,297,104	10,037,621	Approved
Rhode Island	798,916	859,743	Approved
South Carolina	3,577,990	3,881,127	Approved
South Dakota	794,150	853,336	Approved
Tennessee	4,497,007	5,001,374	Approved
Texas	14,218,706	15,692,989	Approved
Utah	2,324,810	2,470,440	Approved
Vermont	574,381	612,704	Approved
Virginia	4,494,138	4,907,459	Approved
Washington	3,331,227	3,774,117	Approved

TABLE 3.—TITLE IV–B CHILD WELFARE SERVICES STATE-BY-STATE ALLOCATIONS AND STATUS OF STATES COMPLIANCE WITH SECTION 427 CHILD WELFARE PROTECTIONS—Continued

[In thousands of dollars]

	Fiscal year—		States compliance with section 427—child welfare protections—fiscal year 1986
	1986 actual	1987 appropriation	
West Virginia	1,975,470	2,153,191	Decision pending
Wisconsin	4,150,089	4,515,597	Approved
Wyoming	196,920	541,858	Not certified
Guam	270,066	303,667	Approved
Northern Mariana	104,404	109,656	Approved
Puerto Rico	3,649,123	5,811,009	Not certified
Virgin Islands	198,626	280,704	Not certified

Results:

Approved	40
Disapproved	4
Decision pending	4
Review pending	1
Not certified	6

[1] Computed as if all States meet section 427 requirements and are eligible for share of amounts above $141 million.

Source: Office of Human Development Services.

Summary of Problems Identified Leading to the Enactment of the 1980 Child Welfare and Foster Care Reforms (P.L. 96–272)

During the same time that States were revising their laws and procedures to identify and investigate cases of child abuse and neglect, there was growing evidence that in many cases children were being inappropriately placed or staying too long in foster care. Beginning in the mid-1970's congressional hearings and investigations related to foster care found evidence of the following:

—Placement in foster care without first providing alternative services that might help children remain with their families;
—Placement in foster care that is too restrictive (institutional); too great a distance from their families, and made without regard for their special needs;
—Lack of a written case plan setting out essential elements of the nature and duration of their foster care;
—Lack of periodic reviews of the effectiveness of the case plan in conjunction with a judicial determination of the future status of the child;
—Parents not being apprised of their children's situation and discouragement of parent-child visitation;
—Failure to provide services to help reunite children with their families;

—Imposition of unnecessary barriers to adoption for children unable to return home; and
—Lack of information about the children in foster care, making it difficult to monitor the progress of individual children and to evaluate progress in the entire system.

In identifying some of the problems of specific foster care cases, the nature of the Federal financing role in child welfare and foster care became evident as follows:

—Federal matching funds for foster care maintenance payments under Title IV of the Social Security Act was an open-ended entitlement in contrast to minimal increases in appropriations for funding child welfare services programs to prevent the need for foster care or reunify families.
—Foster care children who were or could be freed for adoption were sometimes not adopted because of the loss of monthly assistance to the foster parents or Medicaid eligibility for the child if the child was adopted.

Federal Child Welfare and Foster Care Services and Procedures Requirements (P.L. 96–272)

Prior to the enactment of the Adoption Assistance and Child Welfare Amendments of 1980 (P.L. 96–272), the title IV–B child welfare services program was essentially a block grant to States for child welfare related activities including for example, foster care maintenance payments, social work and family counseling, day care and adoption activities. Since 1980, title IV–B funds allocated to a State above the 1979 appropriation level of $56.5 million can only be used for child welfare services.

The 1980 child welfare reform legislation also redefined the purpose of child welfare programs funded under title IV–B as services intended to accomplish the following:

—*Protecting and promoting* the welfare of all children, including handicapped, homeless, dependent or neglected children;
—*Preventing* or remedying, or assisting in the solution of problems which may result in the neglect, abuse, exploitation, or delinquency of children;
—*Preventing* the unnecessary separation of children from their families by identifying family problems, assisting families in resolving their problems and preventing breakup of the family where the prevention of child removal is desirable and possible;
—*Restoring* to their families children who have been removed, by the provision of services to the child and the families;
—*Placing children in suitable adoptive homes,* in cases where restoration to the biological family is not possible or appropriate; and
—*Assuring adequate care of children away from their homes,* in cases where the child cannot be returned home or placed in adoption.

In Public Law 96–272 a comprehensive set of services, procedures and safeguards are described which are intended to correct the specific problems which had been identified in States child welfare and foster care programs.

The 1980 child welfare reform legislation was enacted in anticipation of significant increases in appropriations for the title IV–B program; i.e., from $56 million to $266 million. The required uses of these additional funds and the requirements related to a State's eligibility to receive such funds are intended as incentives for the implementation of the child welfare reforms.

The title IV–B appropriation for fiscal year 1987 is $222.5 million. As an incentive to States to implement the Public Law 96–272 requirements, title IV–B appropriations in excess of $141 million allocated to a State are available to a State only if an on-site review of the case records and procedures in a State indicates that the reforms have been implemented.

Table 3 provides State-by-State information as to the current status of States compliance with the services and procedures requirements of title IV–B as specified in section 427 of the law.

In addition, to the title IV–B funding incentives, the eligibility of a State for Federal matching funds for their title IV–E AFDC foster care program was linked to implementation of certain of the services and procedures reforms.

In summary, these procedures and services include the following:

Foster care information system—A State is to have a statewide information system from which the status, demographic characteristic, location, and the goals for the placement of every child in foster care or who has been in foster care within the preceding 6 months can readily be determined.

Preplacement preventive services.—For a State to be eligible for Federal matching funds for their title IV–E foster care and adoption assistance programs, for each child and prior to placement in foster care, there must be a judicial finding that reasonable efforts have been made to prevent or eliminate the need for the removal of the child from the home. This may include, for example, family counseling, 24-hour crisis intervention services, or the provision of emergency caretakers to provide emergency care in the child's own home instead of removal from the home.

Case plan and case review system.—Each child receiving foster care that is under the supervision of the State is to have a case plan. The case plan is to be designed to achieve placement in the least restrictive (most family like) setting and in close proximity to the parent's home. The case review system requires that there be an independent administrative review of the case every 6 months to determine the continuing appropriateness of the services, to determine the continuing necessity for placement in foster care, and to project when the child can be returned home, freed for adoption or otherwise permanently placed. There must also be a dispositional hearing within 18 months of the original placement of the child in foster care. This hearing must be held in a family or juvenile court or other court of competent jurisdiction or by an administrative body appointed by a court.

Reunification services program.—States are to have a service program designed to help children, where appropriate, return to their own home or, if that is not possible to achieve another permanent placement, such as adoption or legal guardianship at the earliest possible time.

Independent Living Services for Older Foster Care Children

As indicated in Figure 2, approximately 9 percent of the children who leave foster care in a year do so because they reach the age of majority. Approximately 50,000 foster care youth are 16 years of age and older. From studies of the youth in homeless shelters in New York City it was found that nearly 50 percent had a history of foster care placement. Another New York City study found that within 18 months of leaving foster care, one-third of former foster care girls were receiving AFDC.

The 1985 Budget Reconciliation Act established a new authorized entitlement program to assist States in planning and providing services directed at assisting foster care children age 16 and older in preparing for independent living. The program was authorized for fiscal year 1987 and 1988 but with the provision that States could carry over funds allocated to them for a year to the following year. Allocations to the States are according to the ratio which each State's foster care caseload bore to the national caseload in fiscal year 1984. This determination is to be made on the basis of the average number of children in federally matched foster care. No non-Federal matching funds are required of the States. The authorized entitlement is for $45 million for each year.

The funds are to be used for a variety of services, including: services aimed at enabling participants to complete high school or take part in vocational training; training in daily living skills; budgetting, career planning, etc.; coordination of other services; outreach activities; and the development of individualized plans for the transition to independent living.

Foster Care and Adoption Information System Development

At the present time, there is not in place a child welfare, foster care and adoption information system which mandates States to report information on the numbers, characteristics and status of children and families that come in contact with child welfare and foster care agencies and programs.

Data which are available are largely that collected by the American Public Welfare Association through the Voluntary Cooperative Information System (VCIS) which is financed by a grant from the Department of Health and Human Services. However, because it is a voluntary system, States are not required to adhere to common definitions and are not required to provide all the information requested.

The 1986 Budget Reconciliation Act (P.L. 99–509) included an amendment which mandates certain studies and reports to Congress related to the feasibility of and elements of a system for the collection of data with respect to foster care and adoption in the United States.

The amendment requires the Secretary of HHS to establish an Advisory Committee on Adoption and Foster Care Information. By October 1, 1987, the Advisory Committee is to submit to the Congress the results of a study which will identify the types of data necessary to assess on a continuing basis, the incidence, characteristics and status of adoption and foster care and which is useful for developing appropriate national policies.

Not later than July 1, 1988, the Secretary of HHS is to submit to Congress a report that proposes a method of establishing, administering and financing a system for the collection of data relating to adoption and foster care in the United States including specifying any changes in law that will be necessary. By December 31, 1988, HHS is to promulgate final regulations providing for the implementation of the information system with the full implementation of the system no later than October 1, 1991.

Adoption Services and Assistance Programs

"Adoption" means the judicial act of creating the legal relationship of parent and child where it did not exist previously. However, State laws generally require that surrounding the judicial act of adoption that there are legal processes and child welfare services which protect children and the other parties involved.

The adoption of healthy infants still accounts for a high percentage of the children adopted each year. However, since the early 1970's there has been increasing awareness and acceptance of the value of providing permanent adoptive homes for children in foster care or who are in institutional care because of a physical or mental handicap. This led to the enactment of State and Federal laws which have the goal of removing financial and other "barriers" to the adoption of these "children with special needs"; i.e., children who would not otherwise be adopted without special assistance on their behalf to the adoptive parents.

States may use funds from their allocations under the title IV–B child welfare service program and the title XX social services program for adoption services without regard to the AFDC or SSI eligibility of the child. Since October 1, 1980, Federal matching funds under title IV–E have been available to States for the provision of adoption assistance specifically related to encouraging the adoption of "children with special needs".

Number of adoptions.—There are no official Government estimates on the number of children adopted each year in the United States. One estimate by the National Committee for Adoption based on a survey published in 1985, was that there were 50,700 nonrelative adoptions in 1982. That survey also produced the estimate that of those adoptions, 14,000 were of children with "special needs"; and 5,700 were of children from outside the United States.

Based on this same survey, an estimated 19,000 children had adoptions finalized through activities of public adoption agencies during the year ending September 30, 1982.

As described earlier, the 1986 budget reconciliation act established an advisory committee and a timetable intended to lead toward a system for gathering information on adoption.

Adoption procedures, services and assistance.—Activities, services and assistance provided by either public or licensed private nonprofit agencies and which may be among the costs related to the adoption of a child include the following:

—Recruitment of potential adoptive parents;

—Legal and child welfare services related to the termination of birth parents parental rights;

—Home study of prospective adoptive parents by an adoption worker;
—Adoption worker services for "placement for adoption" for a trial period pursuant to State law;
—Monthly adoption assistance payments on behalf of the child to the adoptive parents;
—Health services for the child placed in adoption;
—Adoption worker counseling of the adopting parents family and child and provision of an assessment to the Court of the appropriateness of the adoption placement;
—Legal services and court costs related to the adoption;
—Services related to the filing of an adoption petition by the prospective adoptive parents and a final adoption decree being issued by a Court; and
—Post-adoption counseling, support services and modifications of the adoptive families home related to the needs of a handicapped adopted child.

Title IV-E Adoption Assistance Program

The Adoption Assistance and Child Welfare Amendments of 1980, (P.L. 96-272) authorized a new entitlement program of Federal matching funds for State adoption assistance programs intended to lessen the barriers to the adoption of "children with special needs." States have been required since October 1982 to have an adoption assistance program under title IV-E of the Social Security Act.

Eligibility.—The basic eligibility criteria which determines whether a State can claim Federal matching funds under the title IV-E adoption assistance program is a finding by the State that the child has "special needs" and that because of those needs it is reasonable to conclude that the child could not be adopted unless some form of assistance is provided directly to the child or on behalf of the child to the adoptive parents.

States have considerable latitude in defining "special needs" eligibility criteria and individually determining whether a child is eligible. The title IV-E statute provides that States are to consider such factors and conditions as the following: the child's ethnic background; age; membership in a minority group; physical or mental handicap; or the need to be placed in the same adoptive home as his or her brothers or sisters.

Since January 1, 1987, all "children with special needs" (not just former AFDC, foster care and SSI children) are entitled to some form of adoption asistance under title IV-E. The extension of the title IV-E adoption assistance program to children who are not former AFDC, AFDC foster care or SSI children was an amendment included in the 1986 tax reform legislation (P.L. 99-514). This was in conjunction with the repeal, in the same legislation, of a provision in the Tax Code which allowed for an "adoption expense deduction" for expenses incurred related to the adoption by the taxpayer of a "child with special needs". The deduction was not limited to cases of adoption of children who were former AFDC, AFDC foster care, or SSI children.

As described later, adopted "children with special needs" who are not former AFDC, AFDC foster care or SSI children are not eli-

gible for federally matched monthly adoption assistance payments and are not categorically eligible for Medicaid.

Adoption Assistance Agreements.—A child placed for adoption is entitled to have adoption assistance provided on his or her behalf only as provided for under the provisions of an "adoption assistance agreement" entered into between the State or local title IV–E adoption agency, the adoptive parents and other relevant agencies, such as, a private adoption agency.

The amount and the nature of the assistance is to take into account the circumstances of the adopting parents and the needs of the child being adopted and may be readjusted periodically with the concurrence of the adopting parents. The amount and the nature of the assistance provided can vary considerably based upon the "barriers" to the adoption of the child which have been identified as part of the finding that the child has "special needs" related to being adopted.

There are four broad categories of adoption assistance and related activities that are eligible for Federal matching funds pursuant to the provisions of the title IV–E program. They are:

—Monthly adoption assistance payments to adoptive parents
—Medicaid eligibility for the child placed for adoption
—Payment (directly or indirectly) of "non-recurring" costs of adoption incurred by the adoptive parents
—Administrative costs including staff training related to the adoption assistance program.

Monthly Adoption Assistance Payments.—States have the option to provide adoptive parents of former AFDC, AFDC foster care and SSI children with monthly adoption assistance payments. A primary reason for such payments is to enable foster parents to adopt a "special needs" foster child in their care. The federally matched monthly payments are to be no greater than the foster payment that would have been paid for a particular child and the Federal matching rate is the same as for AFDC foster care payments in a State. Such payments may continue until the child is age 18 or up to age 21 if the child is mentally or physically handicapped.

The 1985 budget reconciliation legislation (P.L. 99–272) eliminated the requirement, effective October 1, 1986, that a monthly adoption assistance payment must be provided on behalf of a "child with special needs." States now have the option to determine whether such ongoing assistance is necessary to assure the adoption of a child.

Medicaid Eligibility as Adoption Assistance.—Children placed in adoption under a title IV–E adoption assistance agreement and who are former AFDC, AFDC foster care or SSI children are categorically eligible for Medicaid as if they were an AFDC recipient.

States also have the option under the Medicaid program to provide Medicaid coverage for other "special needs" children who are adopted if they have been identified as a special category of medically needy children under a State's medicaid program.

Effective October 1, 1986, a child for whom an adoption assistance agreement is in effect is eligible for Medicaid from the State in which they reside irrespective of whether that is the State with whom the adoptive parents have an adoption assistance agreement.

This provision was included in the 1985 budget reconciliation legislation.

Adoption Assistance for "Non-recurring Costs of Adoption".—Assistance to adoptive parents with "non-recurring costs of adoption" is now required to be included in any adoption assistance agreement under the title IV–E program. The amount and nature of such assistance is negotiated between the State, the adoptive parents and other agencies included in the agreement.

Prior to January 1, 1987, "non-recurring costs" of adoption were specifically identified as costs not eligible for Federal matching funds under the title IV–E adoption assistance program. States were precluded, for example, from using title IV–E funds to reimburse adoptive parents for legal fees or for adoption fees charged by private non-profit adoption agencies or to indirectly assist adoptive parents by way of contracts with such private agencies. However, adoptive parents could claim as a deduction against their taxable income up to $1,500 of "qualified adoption expenses" related to the adoption of a "child with special needs". "Qualified adoption expenses" were defined in the Tax Code as "reasonable and necessary adoption fees, court costs, attorney fees, and other expenses which are directly related to the legal adoption of a child with special needs."

The 1986 tax reform legislation repealed the adoption expense deduction. However, effective January 1, 1987, the title IV–E program was amended by the same legislation to provide that those same expenses are now adoption assistance program costs for which States can claim 50 percent Federal matching as "non-recurring costs of adoption." The definition of "qualified adoption expenses", formerly in the Tax Code, is now the definition of "non-recurring costs of adoption" under the title IV–E program.

Adoption Assistance Program Administrative and Staff Training Expenses.—States may claim 50 percent Federal matching for administrative expenses related to the provision of adoption assistance under the title IV–E program.

According to a policy announcement by HHS in August 1983, States may claim matching funds for the following activities: recruitment of adoptive homes; placement of the child in the adoptive home; home studies of the prospective adoptive home; case planning; case management; and case review activities.

In addition, administrative costs in the form of training personnel employed or preparing for employment with the agency administering the title IV–E foster care and adoption assistance program are eligible for 75 percent Federal matching.

Table 4 shows the Federal share of the cost of the title IV–E adoption assistance program in fiscal years 1985 and 1986 and the estimated expenditures for fiscal year 1987. The cost of the adoption assistance program has grown from less than $5 million in fiscal year 1982 to an estimated nearly $82 million in fiscal year 1987. An estimated 29,685 children are expected to benefit from the adoption assistance program in fiscal year 1987. Table 5 shows the number of States that have claimed Federal matching funds and the average monthly number of children on whose behalf monthly adoption assistance payments were provided in fiscal years 1981 through 1987.

TABLE 4.—ADOPTION ASSISTANCE STATE CLAIMS FISCAL YEARS 1985–87 AND ESTIMATED AVERAGE NUMBER OF CHILDREN RECEIVING ADOPTION ASSISTANCE FISCAL YEAR 1987

Name of State	Fiscal year—			
	1985 claims	1986 claims	1987 claims (est.)	1987 estimated average monthly number of children
Total	$37,208	$52,614	$81,753	29,685
Alabama	123	164	335	139
Alaska	0	0	41	0
Arizona	512	703	984	369
Arkansas	131	199	396	184
California	5,399	8,530	12,314	1,637
Colorado	69	92	282	91
Connecticut	123	164	367	185
Delaware	28	38	75	41
District of Columbia	553	878	1,181	115
Florida	1,415	2,149	3,250	925
Georgia	31	41	259	39
Hawaii	6	8	36	11
Idaho	21	28	44	33
Illinois	1,512	2,192	3,569	1,537
Indiana	251	341	565	386
Iowa	166	221	327	274
Kansas	132	176	302	247
Kentucky	287	383	641	367
Louisiana	218	291	666	284
Maine	220	293	481	171
Maryland	375	500	949	527
Massachusetts	492	656	1,214	515
Michigan	4,117	5,492	8,099	3,695
Minnesota	454	606	904	421
Mississippi	235	313	526	347
Missouri	616	822	1,509	797
Montana	55	77	144	22
Nebraska	245	334	551	284
Nevada	14	20	81	61
New Hampshire	77	103	183	111
New Jersey	636	916	1,567	724
New Mexico	139	185	324	109
New York	13,351	18,344	27,043	9,441
North Carolina	227	304	686	426
North Dakota	61	82	149	113

TABLE 4.—ADOPTION ASSISTANCE STATE CLAIMS FISCAL YEARS 1985–87 AND ESTIMATED AVERAGE NUMBER OF CHILDREN RECEIVING ADOPTION ASSISTANCE FISCAL YEAR 1987—Continued

Name of State	Fiscal year—			
	1985 claims	1986 claims	1987 claims (est.)	1987 estimated average monthly number of children
Ohio	858	1,159	2,250	1,403
Oklahoma	88	117	235	152
Oregon	56	75	242	159
Pennsylvania	669	940	1,768	273
Rhode Island	145	193	348	189
South Carolina	187	249	471	191
South Dakota	34	45	82	57
Tennessee	211	283	423	234
Texas	872	1,359	2,002	512
Utah	84	128	195	69
Vermont	137	206	286	74
Virginia	265	365	547	386
Washington	383	546	906	591
West Virginia	91	121	172	61
Wisconsin	837	1,180	1,766	706
Wyoming	0	0	16	0

Source: Office of Human Development Services.

TABLE 5.—AVERAGE MONTHLY NUMBER OF CHILDREN RECEIVING BENEFITS UNDER TITLE IV–E ADOPTION ASSISTANCE PROGRAM, FISCAL YEARS 1981–87

Fiscal year	Number of States participating	Average monthly number of children
1981	6	165
1982	23	2,402
1983	48	5,309
1984	49	11,581
1985	49	16,014
1986	49	21,280
1987	49	29,685

Source: Office of Human Development Services.

Section 12. Selected Employment, Health, and Income Security Tax Expenditures

Targeted Jobs Tax Credit

Legislative history

Congress enacted the targeted jobs tax credit (sec. 51 of the Internal Revenue Code) in section 321 of the Revenue Act of 1978 to replace the expiring credit for increased employment. The targeted jobs credit is intended to provide an incentive for hiring specific, targeted groups of individuals. The groups eligible for the credit consist of individuals who are either recipients of payments under means-tested transfer programs, economically disadvantaged (as measured by family income), or disabled.

As initially enacted, the targeted jobs credit was allowed for qualified wages paid before 1982. The Economic Recovery Tax Act of 1981 ("ERTA") extended the availability of the targeted jobs credit to qualified wages paid to individuals beginning work for the employer before 1983. Under ERTA, the employer could claim the credit for qualified wages paid to such individuals for services rendered in 1983 and 1984. The Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") extended the availability of the credit to qualified wages attributable to services performed in 1985 and 1986, paid to individuals who began work for the taxpayer before 1985. The Deficit Reduction Act of 1984 (the 1984 Act) extended the availability of the credit to qualified wages attributable to services performed in 1986 and 1987, paid to individuals who began work for the taxpayer before 1986. The Tax Reform Act of 1986 (the 1986 Act) extended the availability of the credit to qualified wages attributable to services performed in 1988 and 1989, paid to individuals who began work for the taxpayer before 1989.

In addition, ERTA, TEFRA, and the 1984 Act altered the targeted group definitions and made several administrative and technical changes in the credit provisions. The 1986 Act generally reduced the maximum credit per year, limited to one year the period per employee for which the credit may be claimed, established a minimum employment period for credit eligibility, and extended the authorization for appropriations for administrative and publicity expenses to fiscal years 1986 through 1988.

Explanation of provision

The targeted job tax credit is available on an elective basis for hiring individuals from nine targeted groups. The targeted groups are: (1) vocational rehabilitation referrals; (2) economically disadvantaged youths aged 18 through 24; (3) economically disadvantaged Vietnam-era veterans; (4) Supplemental Security Income ("SSI") recipients; (5) general assistance recipients; (6) economically

disadvantaged cooperative education students aged 16 through 19; (7) economically disadvantaged former convicts; (8) Aid to Families with Dependent Children ("AFDC") recipients and Work Incentive ("WIN") registrants; and (9) economically disadvantaged summer youth employees aged 16 or 17. Targeted group membership must be certified.

The credit generally is equal to 40 percent of the first $6,000 of qualified first-year wages paid to a member of a targeted group. Thus, the maximum credit generally is $2,400 per individual. With respect to economically disadvantaged summer youth employees, however, the credit is equal to 85 percent of up to $3,000 of wages, for a maximum credit of $2,550.

The credit is not available for wages paid to a targeted group member unless the individual either (1) is employed by the employer for at least 90 days (14 days in the case of economically disadvantaged summer youth employees), or (2) has completed at least 120 hours of work performed for the employer (20 hours in the case of economically disadvantaged summer youth employees). Also the employer's deduction for wages must be reduced by the amount of the credit.

Effect of provision

Almost 622,000 employees qualified for the targeted jobs tax credit in 1985, more than three times the number of qualified employees in 1982 (see table 1). The net increase in U.S. employment is probably less than this amount because some of these employees might have been hired without the credit, and some non-credit eligible employees might have been displaced by the targeted jobs credit program.

TABLE 1.—TOTAL VOUCHERS AND CERTIFICATIONS, FISCAL YEARS 1982–85

Fiscal year	Total vouchers	Total certifications[1]
1982	624,687	202,261
1983	1,286,947	431,182
1984	1,337,637	563,381
1985	1,342,951	621,889

[1] Does not include certificates of economically disadvantaged cooperative education students. Such certifications are issued by participating schools rather than State employment security agencies which issue certification for all other targeted groups.

Source: U.S. Department of Labor.

The credit appears to be most associated with employment opportunities for economically disadvantaged youth aged 18–24. Table 2 shows that almost 60 percent of the employees who became credit eligible in 1985 were economically disadvantaged youth.

TABLE 2.—VOUCHERS AND CERTIFICATIONS BY TARGETED GROUP, FISCAL YEAR 1985 [1]

Targeted group	Vouchers		Certifications	
	Number	Percent [2]	Number	Percent [2]
Economically disadvantaged youths 18–24	630,240	46.9	366,711	59.0
Economically disadvantaged Vietnam-era veterans	65,500	4.9	26,478	4.3
Economically disadvantaged former convicts	80,430	6.0	29,880	4.8
Economically disadvantaged summer youth	50,524	3.8	26,923	4.3
General assistance recipients	88,777	6.6	26,716	4.3
SSI recipients	4,835	0.4	2,307	0.4
AFDC recipients and WIN registrants	321,848	24.0	99,637	16.0
Vocational rehabilitation referrals	100,797	7.5	43,237	7.0
Total [3]	1,342,951	100.0	621,889	100.0

[1] A voucher is a preliminary determination that an individual is a member of a targeted group. A certification is a final eligibility determination, issued upon the request of a hiring employer.

[2] Due to rounding, percentages may not add to totals.

[3] Does not include certifications of economically disadvantaged cooperative education students. Such certifications are issued by participating schools rather than State employment security agencies which issue certifications for all other targeted groups.

Source: U.S. Department of Labor.

TABLE 3.—TAX EXPENDITURE ESTIMATE

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1988	(1)	0.3	0.4
1989	(1)	0.2	0.2
1990	(1)	0.1	0.1
1991	(1)	0.1	0.1
1992	(1)	(1)	(1)
Total 1988–92	0.1	0.7	0.9

[1] Less than $50 million.

Dependent Care Credit

Legislative history

Under section 21 of the Internal Revenue Code, a tax credit is allowed with respect to certain employment-related expenses for dependent care. The origin of the credit was a provision enacted in section 214 of the Internal Revenue Code of 1954 providing a deduction to gainfully employed women, widowers, and legally separated or divorced men for certain employment-related dependent care expenses. The allowance was limited to $600 per year and was phased out for families with income between $4,500 and $5,100. The intent of the provision was to recognize that certain dependent care ex-

penses are similar to employee business expenses and thus should be deductible.

The Revenue Act of 1964 made husbands with incapacitated wives eligible for the dependent care deduction and raised the threshold for the income phaseout from $4,500 to $6,000.

The Revenue Act of 1971 made any individual maintaining a household eligible for the deduction (subject to a gainful employment requirement). The 1971 Act also (1) modified the definition of a dependent, (2) raised the deduction limit to $4,800 per year, (3) increased from $6,000 to $18,000 the income level at which the deduction began to be phased out, (4) allowed the deduction for household services in addition to direct dependent care, and (5) limited the deduction with respect to services outside the taxpayer's household. The 1971 amendment was intended to encourage the hiring of domestic workers, encourage the care of incapacitated persons at home rather than in institutions, and provide relief to middle- and low-income taxpayers.

The Tax Reduction Act of 1975 increased from $18,000 to $35,000 the income level at which the deduction began to be phased out.

The Tax Reform Act of 1976 replaced the deduction with a nonrefundable credit. Congress believed that (1) the benefits of this provision should not be limited to taxpayers who itemize deductions, (2) a tax credit would provide relatively more benefit than a deduction to taxpayers in the lower tax brackets, (3) the prior rules governing married couples, divorced and separated persons, and payments to relatives were unduly restrictive, and (4) computation of the deduction was too complex.

The Revenue Act of 1978 further modified the rules relating to whether payments to relatives qualify as creditable expenses. In the Economic Recovery Tax Act of 1981, Congress provided (1) a higher ceiling on creditable expenses, (2) a larger credit for lower income individuals, and (3) modified rules relating to care provided outside the home.

Explanation of provision

A nonrefundable credit against income tax liability is available for up to 30 percent of a limited amount of employment-related dependent care expenses. Eligible employment-related expenses are limited to $2,400 if there is one qualifying individual, and $4,800 if there are two or more qualifying individuals. The credit may be claimed by an individual who maintains a household that includes one or more qualifying individuals. Generally, a qualifying individual is a dependent under the age of 15, a physically or mentally incapacitated dependent, or a physically or mentally incapacitated spouse.

Employment-related dependent care expenses are expenses for the care of a qualifying individual incurred to enable the taxpayer to be gainfully employed. For example, amounts paid for the services of a housekeeper generally qualify if such services are performed at least partly for the benefit of a qualifying individual; amounts paid for a chauffeur or gardener do not qualify.

The amount of employment-related expenses that may be taken into account in computing the credit generally may not exceed an individual's earned income or, in the case of married taxpayers, the

earned income of the spouse with the lesser earnings. (This limitation does not apply in the case of a spouse who is a full-time student or who is incapable of caring for himself or herself). Thus, if one spouse is not working, no credit generally is allowed.

The 30-percent credit rate is reduced, but not below 20 percent, by one percentage point for each $2,000 (or fraction thereof) of adjusted gross income (AGI) above $10,000. Because married couples are required to file a joint return to claim the credit, a married couple's combined AGI is used for purposes of this computation.

Effect of provision

Few low-income individuals use the dependent care credit. It is estimated that, in 1983, only one percent of married couples who claimed the earned income credit also claimed the dependent care credit. This result probably occurs because married couples with income low enough to be eligible for the earned income credit predominantly are one-earner couples who are not eligible for the dependent care credit. Even among low-income unmarried individuals with children, use of the dependent care credit is low; fewer than six percent of unmarried heads of households who claimed the earned income credit also claimed the dependent care credit.

Precise information is not available to account for the low use of the dependent care credit by the earned income credit population. A Bureau of Census study [1] of 1982 child care arrangements used by mothers for their youngest child under age five may provide some explanation. For those with family income under $15,000, only about 36 percent used child care arrangements for which cash payments are most common—care in a home by a nonrelative or care in a nursery school or day care center. The remainder used care by relatives (other than the 5 percent not classified or reported).

Dependent care credits totaling $2.6 billion were claimed on approximately 7.5 million returns in 1984. In 1988, it is estimated that dependent care credits totaling $3.5 billion will be claimed on approximately 8.4 million returns (see table 4).

TABLE 4.—DISTRIBUTION OF TAX EXPENDITURE BY INCOME CLASS: CALENDAR YEAR 1988 RATES AND INCOME LEVELS

Income class (thousands)	Returns (thousands)	Amount (millions)
Below $10	80	$20
$10 to $20	1,040	426
$20 to $30	1,978	841
$30 to $40	2,043	870
$40 to $50	1,537	623
$50 to $75	1,383	541
$75 to $100	218	78
$100 to $200	137	51

[1] U.S. Department of Commerce, Bureau of the Census, "Child Care Arrangements of Working Mothers: June 1982" (Series P-23, No. 129), 1983.

TABLE 4.—DISTRIBUTION OF TAX EXPENDITURE BY INCOME CLASS: CALENDAR YEAR 1988 RATES AND INCOME LEVELS—Continued

Income class (thousands)	Returns (thousands)	Amount (millions)
$200 and over	20	8
Total	8,436	3,458

TABLE 5.—TAX EXPENDITURE ESTIMATE

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1988	3.3		3.3
1989	3.5		3.5
1990	3.8		3.8
1991	4.2		4.2
1992	4.6		4.6
Total 1988–92	19.5		19.5

[1] Less than $50 million.

Exclusion for Employer-Provided Dependent Care

Legislative history

The Economic Recovery Tax Act of 1981 added section 129 of the Internal Revenue Code under which certain employer-provided dependent care is excluded from the gross income of an employee. The 1981 Act also amended section 3121(a)(18) and section 3306(b)(13) to exclude such employer-provided dependent care from wages for purposes of the Federal Insurance Contributions Act (FICA) and the Federal Unemployment Tax Act (FUTA). Certain technical amendments were made to section 129 in the Technical Corrections Act of 1982 and in the Deficit Reduction Act of 1984. The Tax Reform Act of 1986 further amended Code section 129 by modifying the nondiscrimination rules and by limiting the exclusion to $5,000 ($2,500 in the case of a separate return by a married individual).

The dependent care exclusion is intended to provide an incentive for employers to provide dependent care benefits to their employees.

Explanation of provision

Amounts paid or incurred by an employer for dependent care assistance provided to an employee generally are excluded from the employee's gross income if the assistance is furnished under a program meeting certain requirements. These include requirements that the program is in writing and satisfy certain nondiscrimina-

tion rules, and that reasonable notification of the program is provided to eligible employees.

With respect to any taxpayer (including a married couple filing a joint return), the dependent care exclusion is limited to $5,000 in any taxable year ($2,500 in the case of a separate return by a married individual). Amounts excluded from gross income generally are excludable from wages for purposes of FICA and FUTA.

Effect of provision

The exclusion provides an incentive for compensation to be furnished in the form of dependent care assistance, rather than in cash subject to taxation. As is the case with any deduction or exclusion, this incentive is of greater value to employees in higher tax brackets.

TABLE 6.—TAX EXPENDITURE ESTIMATE

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1988	(1)		(1)
1989	0.1		0.1
1990	0.1		0.1
1991	0.1		0.1
1992	0.1		0.1
Total 1988–92	0.4		0.4

[1] Less than $50 million.

Exclusion of Employer Contributions for Medical Insurance Premiums and Medical Care

Legislative history

Employer contributions to employee benefit plans originally were not subject to tax, because noncash fringe benefits generally were considered not to be taxable income. In 1943, an Internal Revenue Service ruling made this exemption explicit for employer contributions to group health insurance policies. Employer contributions to individual health insurance policies, however, were declared to be taxable income in an IRS revenue ruling in 1953.

Section 106 of the Internal Revenue Code, enacted in 1954, reversed the 1953 IRS ruling. As a result, all employer contributions to employee health and accident plans are excluded from taxable income. In addition, under section 105 of the Internal Revenue Code, benefits received under an employer's health plan generally are not included in the employee's income. The legislative history of section 106 indicates that its purpose is to make uniform the tax treatment of employer contributions to group health and individual health insurance plans.

In the Revenue Act of 1978, Congress added section 105(h) to tax the benefits payable to highly compensated employees under a self-insured medical reimbursement plan if the plan discriminated in

favor of the highly compensated employees. The Tax Reform Act of 1986 modified the health provisions by repealing section 105(h), amending section 106 to exclude employer-provided coverage (rather than contributions) under an accident or health plan, and providing that the exclusion under section 106 does not apply to highly compensated employees under an employer-provided health plan (whether or not self insured) unless the plan does not discriminate in favor of the employer's highly compensated employees. In enacting these limitations on the exclusion for employer-provided health coverage, Congress stated its intent that the exclusion should not be available if a health plan is designed primarily to benefit the highly compensated employees of an employer.

Explanation of provision

Under section 106 of the Internal Revenue Code of 1986, gross income of an employee does not include contributions by the employer (through insurance or otherwise) to the employee for personal injuries or sickness.

Section 105 of the Code provides that gross income does not include amounts received by an employee for personal injuries or sickness if the amounts are paid directly or indirectly to the employee to reimburse for expenses incurred for medical care.

Section 89 of the Code provides that, in the case of a discriminatory employee benefit plan (including a health plan), a highly compensated employee is required to include in income all or a portion of the employee's employer-provided benefit. The employee's employer-provided benefit generally is the value of the coverage provided to an employee under a health plan, rather than the amount of benefits actually paid directly or indirectly to the employee for medical care.

Effect of provision

Historically, the tax law has been structured to give incentives to employers (through statutory exclusions from gross income for employees) to provide certain benefits to their employees. These tax incentives have been justified as a means to ensure broad-based coverage of workers under certain programs that have been determined to be socially desirable. Nondiscrimination requirements have been imposed to guarantee that such programs benefit significant numbers of low-paid employees.

The exclusion for employer-provided health coverage provides an incentive for compensation to be furnished in the form of health coverage, rather than in cash subject to current taxation. As is the case with any deduction or exclusion, this incentive is largest for employees subject to tax at a high marginal tax rate.

Table 7 presents data summarizing the growth over four decades of employer contributions to group health insurance. The table provides actual historical information for selected years from 1955 to 1983, as well as projected figures for 1985 and 1990, on the amount of employer contributions and the percent that amount is of total wages. Contributions to group health plans, second only to qualified pension plans in overall magnitude of employer-provided benefits, are expected to more than triple during the period 1980–1990, reaching an annual figure of $140.2 billion by 1990.

Table 7 also shows the rates at which group health insurance benefits have grown compared to total wages and salaries. Group health insurance grew from 0.8 percent of wages in 1955 to 4.7 percent of wages in 1983.

TABLE 7.—EMPLOYER CONTRIBUTIONS FOR GROUP HEALTH INSURANCE

[Billions of dollars]

	Actual							Projected	
	1955	1960	1965	1970	1975	1980	1983	1985	1990
Amount [1]	1.7	3.4	5.9	12.1	21.3	45.4	77.2	90.4	140.2
Percent of wages	0.8	1.2	1.6	2.2	2.6	3.3	4.7	4.7	5.1

[1] Amounts are based on Department of Commerce reported data and include employer contributions for short- and long-term disability insurance covering private employees and their dependents for 1955–1970. Actual amounts shown for 1975–1983 and Department of Health and Human Services projections for 1985–1990 do not include disability insurance.

Table 8 shows another way of examining the growth in employer contributions to health insurance. These figures compare the increases in wages to the increase in health benefits during the 1950–83 period.

Between 1950 and 1955, health contributions increased 1.5 cents for every dollar of increase in aggregate wages. During the 1970s, health benefit contributions increased approximately 4.5 cents for each dollar of increase in wages. Over the 1980 to 1983 period, health benefit contributions represented 10.5 cents of each dollar of wage growth.

TABLE 8.—INCREASE IN EMPLOYER GROUP HEALTH INSURANCE CONTRIBUTIONS AS PERCENTAGE OF INCREASE IN WAGES, 1950–83

Years	Percentage increase
1950–55	1.5
1955–60	2.8
1960–65	2.7
1965–70	3.3
1970–75	4.7
1975–80	4.4
1980–83	10.5

Source: Computed from U.S. Department of Commerce data.

TABLE 9.—TAX EXPENDITURE ESTIMATE

[Billions of dollars]

Fiscal year	Individudal	Corporate	Total
1988	24.2		24.2
1989	26.5		26.5
1990	27.8		27.8
1991	29.6		29.6
1992	31.1		31.1
Total 1988–92	139.2		139.2

Deductibility of Medical Expenses

Legislative history

An itemized deduction for unreimbursed medical expenses above a specified floor has been allowed since 1942. From 1954 through 1982, the floor under the medical expense deduction was 3 percent of the taxpayer's adjusted gross income ("AGI"); a separate floor of 1 percent of AGI applied to expenditures for medicine and drugs.

In the Tax Equity and Fiscal Responsibility Act of 1982, the overall floor was increased to 5 percent of AGI, and was applied comprehensively to medical expenses, prescription medicines and drugs, and insulin. Expenses for nonprescription drugs became ineligible for the deduction, and the separate 1-percent floor on drugs was eliminated.

The Tax Reform Act of 1986 increased the floor for deductible medical expenses to 7.5 percent of AGI, beginning in 1987.

Explanation of provision

Individuals who itemize deductions may deduct amounts paid during the taxable year, if not reimbursed by insurance or otherwise, for medical care of the taxpayer and of the taxpayer's spouse and dependents, to the extent that the total of such expenses exceeds 7.5 percent of adjusted gross income (sec. 213).

Medical care expenses eligible for the deduction are amounts paid by the taxpayer for (1) health insurance (including employee contributions to employer health plans); (2) diagnosis, treatment, or prevention of disease or malfunction of the body; (3) transportation primarily for and essential to medical care; and (4) lodging away from home primarily for and essential to medical care, up to $50 per night. The costs of prescription medicines and insulin are eligible medical care expenses.

Expenses paid for the general improvement of health, such as fees for exercise or weight-reduction programs, are not eligible for deduction unless prescribed by a physician to treat a specific illness or physical defect.

Effect of provision

The purpose of the deduction is to recognize that where unreimbursed medical expenses for a year are so great that they absorb a substantial portion of income, they adversely affect the taxpayer's ability to pay taxes. In order to limit the deduction to extraordinary expenses, the tax law provides that medical expenses are deductible only to the extent that they exceed a specified percentage (now 7.5 percent) of the taxpayer's AGI.

A floor on deductions provides tax relief when an individual has incurred extraordinary medical expenses, for example, as a result of uninsured surgery, severe chronic disease, or catastrophic illness. The deduction is not limited to specifically defined diseases or types of expenditures deemed to be involuntary. Thus, voluntary medical expenses, e.g., some types of cosmetic surgery, may be deductible.

Seventy percent of the tax returns that claim the deduction are below the $40,000 income class. As table 10 shows, they claim 43 percent of the tax savings from the deduction.

TABLE 10.—DISTRIBUTION OF TAX EXPENDITURE BY INCOME CLASS: CALENDAR YEAR 1988 RATES AND INCOME LEVELS

Income class (thousands)	Returns (thousands)	Amount (millions)
Below $10	102	$18
$10 to $20	883	190
$20 to $30	1,319	320
$30 to $40	1,230	404
$40 to $50	731	266
$50 to $75	546	358
$75 to $100	114	163
$100 to $200	97	316
$200 and over	14	127
Total	5,036	2,161

TABLE 11.—TAX EXPENDITURE ESTIMATE

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1988	2.3		2.3
1989	2.3		2.3
1990	2.6		2.6
1991	3.0		3.0
1992	3.3		3.3
Total 1988–92		13.6	13.6

EXCLUSION OF MEDICARE BENEFITS

Legislative history

The exclusion from income of benefits under Part A of Medicare has never been expressly established by statute. A 1970 ruling, Rev. Rul. 70-341, 1970-2 C.B. 31, provided that the Part A benefits are not includible in gross income because they are in the nature of disbursements made in furtherance of the social welfare objectives of the Federal Government. The Internal Revenue Service relied for this holding on a similar ruling, Rev. Rul. 70-217, 1970-1 C.B. 12, with respect to old age and survivors insurance benefits and disability insurance benefits ("OASDI"). (For background on the exclusion of OASDI benefits, see below.)

The 1970 ruling held that benefits under Part B of Medicare are excludable under section 104 as insurance proceeds (though the subsidized portion of part B also may be excluded on the same grounds applicable to Part A).

Explanation of provision

Benefits under Part A and Part B of Medicare are excludable from the gross income of the recipient. In general, Part A pays for certain inpatient hospital care, skilled nursing facility care, home health care, and hospice care for eligible individuals (generally the elderly and the disabled). Part B covers certain doctor's services and other medical services for elderly or disabled individuals who elect to pay the required premium.

TABLE 12.—TAX EXPENDITURE ESTIMATE: MEDICARE PART A

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1988	3.8		3.8
1989	4.2		4.2
1990	4.7		4.7
1991	5.1		5.1
1992	5.6		5.6
Total 1988–92	23.4		23.4

TABLE 13.—TAX EXPENDITURE ESTIMATE: MEDICARE PART B

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1988	1.9		1.9
1989	2.1		2.1
1990	2.4		2.4
1991	2.7		2.7

TABLE 13.—TAX EXPENDITURE ESTIMATE: MEDICARE PART B—Continued

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1992	3.0		3.0
Total 1988–92	12.1		12.1

Exclusion of Social Security and Railroad Retirement Benefits

Legislative history

Social Security Benefits.—The exemption from gross income for social security benefits was not established by statute. Prior to the Social Security Amendments of 1983, the exclusion of social security benefits from gross income was derived from a series of administrative rulings issued by the Internal Revenue Service in 1938 and 1941 (see I.T. 3194, 1938–1 C.B. 114, I.T. 3229, 1938–2 C.B. 136, and I.T. 3447, 1941–1 C.B. 191). A Supreme Court decision in 1937 in which social security benefits were characterized as "general welfare" may have been influential in resolving the issue.[2] I.T. 3194 and I.T. 3229 made lump-sum distributions nontaxable; internal memoranda suggested that the payments were considered in the nature of a gift. The reasons underlying I.T. 3447 appear to include the following theories: (1) the benefits are gratuities and, thus, not subject to income tax because gifts are not taxable; (2) the Congress indicated its intent that the benefits not be taxable because it did not specifically make them taxable; and (3) the benefits are in the nature of public assistance for the general welfare and the Congress did not intend to tax with one hand what it pays out with the other.

Under the Social Security Amendments of 1983, a portion of the social security benefits paid to higher-income taxpayers is included in gross income. In modifying the tax treatment of social security benefits in 1983, the Congress stated that social security benefits are in the nature of benefits received under other retirement systems, which are subject to taxation to the extent they exceed a worker's nondeductible contributions. The legislative history further indicated that taxing a portion of social security benefits improves tax equity by treating more equally all forms of retirement and other income that are designed to replace wages. The tax treatment of social security benefits is contained in section 86 of the Internal Revenue Code of 1986.

Railroad Retirement Benefits.—The exclusion from gross income of benefits paid under the railroad retirement system was enacted in the Railroad Retirement Act of 1935. The rationale for the exclusion was not separately stated, but is presumed to be similar to the reasons for excluding social security benefits from gross income.

[2] *Helvering v. Davis*, 301 U.S. 619, 640 (1937).

A portion of the benefits payable under the railroad retirement system is in the nature of an equivalent to social security benefits. The tax treatment of this portion of railroad retirement benefits was modified in the Social Security Amendments of 1983 to conform generally to the tax treatment of social security benefits and to the treatment of employer-provided retirement benefits. This tax treatment subsequently was modified by the Consolidated Omnibus Budget Reconciliation Act of 1985 to conform the tax treatment of tier 1 benefits to social security benefits only to the extent that social security benefits otherwise would be payable.

Explanation of provision

Under section 86 of the Internal Revenue Code, a portion of social security and tier 1 railroad retirement benefits is included in taxable income for taxpayers whose adjusted gross income ("AGI"), combined with (1) interest on tax-exempt bonds and (2) 50 percent of social security and tier 1 railroad retirement benefits, exceeds a base amount. The base amount is $25,000 for unmarried individuals, $32,000 for married couples filing joint returns, and zero for married persons filing separate returns. The amount of benefit includible in income is the lesser of (1) 50 percent of the social security and tier 1 railroad retirement benefits, or (2) 50 percent of the excess of the taxpayer's combined income over the base amount.

The portion of tier 1 railroad retirement benefits potentially includible in taxable income under the above formula is the amount of benefits the taxpayer would have received if covered under social security. Pursuant to section 72(r) of the Internal Revenue Code of 1986, all other benefits payable under the railroad retirement system are includible in income when received to the extent they exceed employee contributions.

TABLE 14.—TAX EXPENDITURE ESTIMATE: RAILROAD RETIREMENT SYSTEM BENEFITS

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1988	0.4		0.4
1989	0.4		0.4
1990	0.4		0.4
1991	0.4		0.4
1992	0.4		0.4
Total 1988–92	1.9		1.9

TABLE 15.—TAX EXPENDITURE ESTIMATE: SOCIAL SECURITY BENEFITS

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1988	18.5		18.5
1989	17.3		17.3

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TABLE 15.—TAX EXPENDITURE ESTIMATE: SOCIAL SECURITY BENEFITS—Continued

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1990	18.5		18.5
1991	19.6		19.6
1992	20.9		20.9
Total 1988–92	94.8		94.8

Exclusion of Workmen's Compensation and Special Benefits for Disabled Coal Miners

Legislative history

Workmen's Compensation.—Under section 104(a)(1) of the Internal Revenue Code of 1986, workmen's compensation benefits generally are not taxable. Present law provides, however, that to the extent workmen's compensation benefits reduce social security benefits received, the workmen's compensation benefits are treated as social security benefits (see above). This exclusion from gross income was first codified in the Revenue Act of 1918. The Ways and Means Committee report for that Act suggests that such payments were not subject to tax even prior to the 1918 Act.

The rationale for this exclusion is not offered in the legislative history; however, several arguments frequently are made for maintaining this provision. One such argument is that it is inequitable to tax payments that are in lieu of damages under State tort law, while continuing to exclude from income actual damage payments on account of personal injuries or sickness (Code sec. 104(a)(2)). Another argument is that eliminating the exclusions for wage replacement payments would require employers and State and local governments to alter their wage replacement programs to take account of the recipients' tax liability. This could increase unduly the overall expenditures required to maintain these programs. Alternatively, net benefits to recipients might be reduced by imposition of tax.

Benefits for Disabled Coal Miners.—Payments made to coal miners or their survivors for death or disability resulting from pneumoconiosis (black lung disease) under the Federal Coal Mine Health and Safety Act of 1969 (as amended by the Black Lung Benefits Act of 1972, the Black Lung Benefits Reform Act of 1977, and the Black Lung Benefits Revenue Act of 1981) are excluded from gross income.

Payments made as a result of claims filed before December 31, 1972, originally were excluded from Federal income tax by the Federal Coal Mine Health and Safety Act of 1969. Later payments are excluded from gross income because they are considered to be in the nature of workers' compensation (Rev. Rul. 72–400, 1972 C.B. 75).

Explanation of provision

Workmen's Compensation.—Present law provides that gross income does not include amounts received under workers' compensation acts as compensation for personal injuries or sickness. This exclusion also applies to benefits paid under a workers' compensation act to a survivor of a deceased employee.

Benefits for Disabled Coal Miners.—Under present law, benefits for disabled coal miners (black lung benefits) are not includible in gross income.

There are two types of black lung programs. The first involves Federal payments to coal miners and their survivors due to death or disability, payable for claims filed before July 1, 1973 (Dec. 31, 1973, in the case of survivors). Monthly cash benefits are related to the GS–2 civil service pay scale and number of dependents. This program provided total annual payments of around $1 billion to approximately 314,000 beneficiaries in 1984.[3]

The second program requires coal mine operators to insure payment of black lung benefits for claims filed on or after July 1973 (December 31, 1973, in the case of survivors) in a federally mandated workers' compensation program. Benefits include medical treatment as well as cash payments which, in general, are the same as provided under the program described above. These benefits are paid from a trust fund financed by an excise tax on coal production if there is no responsible operator (an operator for whom the miner worker 1 year) or if the responsible operator is in default. This program provided total annual payments of around $595 million to approximately 162,000 claimants in 1984.[4]

TABLE 16.—TAX EXPENDITURE ESTIMATE: WORKMEN'S COMPENSATION

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1988	2.7		2.7
1989	3.0		3.0
1990	3.3		3.3
1991	3.6		3.6
1992	3.9		3.9
Total 1988–92	16.5		16.5

TABLE 17.—TAX EXPENDITURE ESTIMATE: DISABLED COAL MINERS

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1988	0.2		0.2
1989	0.2		0.2

[3] Preliminary numbers from the Statistical Abstract of the United States, 1986.
[4] Ibid.

TABLE 17.—TAX EXPENDITURE ESTIMATE: DISABLED COAL MINERS—Continued

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1990	0.2		0.2
1991	0.2		0.2
1992	0.2		0.2
Total 1988–92	0.9		0.9

Exclusion of Public Assistance and SSI Benefits

Legislative history

While there is no specific statutory authorization, a number of revenue rulings under Code section 61 have declared specific types of public assistance payments excludable. Revenue rulings generally exclude government transfer payments from income because they are considered to be general welfare payments. While no specific rationale has been advanced for this exclusion, the reasoning may be similar to that for the original exclusion of social security benefit payments—that they are in the nature of gifts and that the Congress did not intend to tax with one hand what it pays out with the other.

Explanation of provision

The Government provides public assistance benefits tax free to individuals either in the form of cash payments or by providing certain goods and services free of charge. Cash payments come mainly from the Aid to Families with Dependent Children ("AFDC") and Supplemental Security Income ("SSI") programs. In kind payments include food stamps, Medicaid, and housing assistance.

TABLE 18.—TAX EXPENDITURE ESTIMATE

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1988	0.3		0.3
1989	.3		.3
1990	.3		.3
1991	.3		.3
1992	.3		.3
Total 1988–92	1.5		1.5

Net Exclusion of Pension Contributions and Earnings

Legislative history

Originally, no special tax treatment applied to employee retirement trusts. Retirement payments to employees and contributions to pension trusts were deductible by the employer as an ordinary and necessary business expense. Employees were taxed on amounts actually received as well as on employer contributions to a trust if there was a reasonable expectation of benefits accruing from the trust.

Since 1921, in order to stimulate the adoption of retirement plans by employers, the Internal Revenue Code has specifically provided that certain employee trusts are exempt from Federal income tax. The 1921 Code provided an exemption for a trust forming part of a qualified profit-sharing or stock bonus plan. The 1926 Code provided a similar exemption for qualified pension trusts and established deduction limits designed to set appropriate limits on the extent to which tax-favored treatment would be available under qualified plans. A number of changes to the qualification rules and deduction limits were made prior to the enactment of the 1954 Code.

The special tax treatment afforded employee trusts was retained in the 1954 Code. Section 401(a) (and sections referred to therein) contains the basic qualification standards which the trust must satisfy in order to be exempt from tax under section 501(a); section 404 limits the amounts of contributions that can be deducted; and sections 402 and 72 govern the taxation of benefits distributed to employees.

The standards applicable to qualified plans have been revised to reflect Congressional interest in the expansion of pension, profit-sharing and stock bonus plans and the prevention of tax abuses. The rules relating to qualified plans were substantially revised by the Employee Retirement Income Security Act of 1974 ("ERISA"), which added (1) minimum coverage, vesting, benefit accrual, and funding requirements, and (2) overall limits on contributions and benefits. Further revision of these rules was made by the Tax Reform Act of 1976, the Revenue Act of 1978, the Economic Recovery Tax Act of 1981, the Tax Equity and Fiscal Responsibility Act of 1982, the Deficit Reduction Act of 1984, and the Retirement Equity Act of 1984.

The Tax Reform Act of 1986 made further modifications to the limits on deductions to qualified plans, tax treatment of distributions from plans, and the qualification rules. These provisions reflect continued Congressional concern that the special tax benefits should only be available if retirement benefits are provided on a nondiscriminatory basis.

Explanation of provision

Under section 404 of the Internal Revenue Code of 1986, an employer is allowed a deduction for contributions, within limits, to a trust which is a part of a qualified pension, profit-sharing, or stock bonus plan. Similar rules apply to plans funded with annuity contracts. An employer that makes contributions to a qualified plan in

excess of the deduction limits is subject to a 10-percent excise tax on such excess (Code sec. 4972).

The qualification rules for pension, profit-sharing, and stock bonus plans are contained in section 401(a) and sections referred to therein. These rules limit the amount of benefits that can be provided through a qualified plan and provide that benefits must be provided on a basis that does not discriminate in favor of highly compensated employees. In addition, qualified plans are required to meet minimum standards relating to coverage (the portion of employees participating in the plan), vesting (the time at which an employee's benefit becomes nonforfeitable), and benefit accrual (the rate at which an employee earns a benefit). Also, minimum funding standards apply to the rate at which employer contributions are required to be made to ensure the solvency of pension plans.

Under sections 402 and 72, an employee who participates in a qualified plan is taxed when the employee receives a distribution from the plan. With certain exceptions, a 10-percent additional income tax is imposed on early contributions from a qualified plan. A 15-percent excise tax is imposed on distributions which exceed a certain amount in any year (sec. 4981A).

Effect of provision

The exclusion of pension contributions and earnings from tax has encouraged employers to establish retirement plans that meet the qualification requirements of the Code. In addition, the preferential tax treatment of pension trusts may encourage employees to increase their total level of savings. These tax provisions directly benefit only taxpayers who work for employers with qualified plans, and who work a sufficient period of time to vest in such plans. As is the case with all exclusions, upper income taxpayers with high marginal tax rates receive more benefit per dollar of pension contribution than lower income taxpayers with low marginal tax rates.

Pension participation rises significantly with employee income. The following table shows that for younger workers (age 25–34), pension participation rises from 24 percent, for employees with less than $10,000 of earnings, to 51 percent for employees with over $35,000 of earnings. For older workers (age 45–64), pension participation rises from 34 percent, for employees with less than $10,000 of earnings, to 85 percent for employees with over $35,000 of earnings. Pension participation also rises with employee age, from an average of 51 percent for younger workers to an average of 63 percent for older workers (see table 19).

TABLE 19.—PENSION PARTICIPATION OF FULL-TIME EMPLOYEES, BY AGE AND EARNINGS

Age and earnings class (thousands of dollars)	Thousands of employees	In percent		
		Participating	Not participating	Don't know
All	73,350	54	39	6
Age 25 to 34:				
All	21,976	51	41	7

TABLE 19.—PENSION PARTICIPATION OF FULL-TIME EMPLOYEES, BY AGE AND EARNINGS—Continued

Age and earnings class (thousands of dollars)	Thousands of employees	In percent		
		Participating	Not participating	Don't know
Under $10	3,878	24	63	13
$10 to $15	5,847	47	45	8
$15 to $20	4,737	60	35	5
$20 to $25	3,770	68	28	4
$25 to $35	2,770	67	29	4
Over $35	975	71	25	4
Age 45 to 64:				
All	19,162	63	30	4
Under $10	3,133	34	59	7
$10 to $15	4,423	57	38	4
$15 to $20	3,632	71	26	3
$20 to $25	3,081	80	18	2
$25 to $35	2,839	82	16	2
Over $35	2,053	85	13	2

Note: Table excludes those not reporting their earnings.
Source: Congressional Budget Office tabulation from May 1983 Current Population Survey.

Pension participation also varies by industry. Table 20 shows that the highest participation rate occurs among public sector employees. According to 1983 data, 81 percent of public sector employees participate in pensions compared to 47 percent for private sector employees. Employees of regulated public utilities had a participation rate comparable to that of public sector employees. Industries with high participation rates include mining (69 percent) and durable manufacturing (67 percent). Industries with low participation rates include retail (29 percent), construction (32 percent), and services (36 percent). Factors affecting participation rates include firm size, unionization, and job tenure.

TABLE 20.—PENSION PARTICIPATION OF FULL-TIME EMPLOYEES, BY INDUSTRY

Industry	Thousands of employees	In percent		
		Participating	Not participating	Don't know
All	74,611	54	40	6
Public sector	13,699	81	15	4
Private sector	60,913	47	46	7
Agriculture	1,217	8	83	9
Mining	858	69	28	3
Construction	3,954	32	61	7
Manufacturing:				
Durables	10,759	67	27	6
Nondurables	7,536	59	34	7

TABLE 20.—PENSION PARTICIPATION OF FULL-TIME EMPLOYEES, BY INDUSTRY—Continued

Industry	Thousands of employees	In percent		
		Participating	Not participating	Don't know
Transportation	2,302	53	42	6
Communication and public utilities	2,363	81	16	4
Trade:				
Wholesale	3,812	47	46	7
Retail	9,352	29	63	9
Finance, insurance, and real estate	4,854	54	40	6
Miscellaneous services	13,925	36	57	8

Note: Table excludes those not reporting their industry.
Source: Congressional Budget Office tabulation from May 1983 Current Population Survey.

TABLE 21.—TAX EXPENDITURE ESTIMATE

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1988	49.3		49.3
1989	51.7		51.7
1990	56.5		56.5
1991	61.8		61.8
1992	67.5		67.5
Total 1988–92	286.9		286.9

Individual Retirement Plans

Legislative history

The Employee Retirement Income Security Act of 1974 ("ERISA") added section 219 of the Internal Revenue Code which provided a tax deduction for certain contributions to individual retirement arrangements ("IRAs"). Those who were active participants in employer plans were not permitted to make deductible IRA contributions.

In response to concerns that active participants in employer plans often received inadequate retirement benefits, the Economic Recovery Tax Act of 1981 ("ERTA") eliminated the provision restricting IRA eligibility to individuals who were not active participants. In addition, ERTA increased the amount of the deduction.

The Tax Reform Act of 1986 amended section 219 (beginning 1987) to provide that the full IRA deduction is not available to individuals with income above certain levels who are active partici-

pants in an employer maintained retirement plan. Individuals who are not entitled to the full IRA deduction may make nondeductible contributions to an IRA.

Explanation of provision

An individual is permitted to make deductible IRA contributions up to the lesser of $2,000 ($2,500 for an individual with a nonworking spouse) or 100 percent of compensation (earned income in the case of a self-employed individual) if (1) the individual (or a couple if a joint return is filed) has adjusted gross income ("AGI") that does not exceed an applicable dollar amount, and (2) the individual is not an active participant in an employer plan (or, in the case of a married individual filing a joint return, neither the individual nor the individual's spouse is an active participant). The applicable dollar amount is (1) $35,000 in the case of an individual, (2) $50,000 in the case a married couple filing a joint return, and (3) $10,000 in the case of a married individual filing separately. The deduction is phased out over a $10,000 interval, so that the AGI phaseout range is (1) $25,000–$35,000 for individuals, (2) $40,000–$50,000 for married individuals filing jointly, and (3) zero to $10,000 for married couples filing separately. Individuals are entitled to make nondeductible contributions to the extent deductible contributions are not allowed (as a result of the phaseout).

In the case of either a deductible or nondeductible IRA, the investment income of the account is not taxed until withdrawn. In the case of a deductible IRA, amounts contributed are includible in income when withdrawn.

TABLE 22.—TAX EXPENDITURE ESTIMATE

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1988	8.5		8.5
1989	8.4		8.4
1990	8.9		8.9
1991	9.3		9.3
1992	10.2		10.2
Total 1988–92	45.3		45.3

ADDITIONAL STANDARD DEDUCTION FOR THE ELDERLY AND BLIND

Legislative history

An additional personal exemption was allowed from 1954 through 1986 for a taxpayer or a spouse if either was 65 years or older at the close of the tax year (Code sec. 151(c)). An additional personal exemption also was allowed for a taxpayer or a spouse if either was blind at the close of the tax year (sec. 151(d)). The additional exemption was provided because the Congress determined that the Code should allow for the greater expenses of elderly and

blind individuals compared to most other individuals at the same income level.

Beginning in 1987, the Tax Reform Act of 1986 provides an additional standard deduction of $600 for a married individual ($750 for a single individual) for the elderly and the blind (secs. 63(c)(3) and (f)), and repeals the additional personal exemption. This change was made because the Congress determined that the extra expenses of the blind and elderly were adequately reflected in the actual deductions of those taxpayers who itemize their deductions.

Explanations of provision

The definitions of elderly and blind status have not been changed since 1954. An elderly person is an individual who has reached, or passed 65 years of age. Blindness is defined in terms of the ability to correct a deficiency in distance vision or the breadth of the area of vision. An individual is blind only if central visual acuity is not better than 20/200 in the better eye with correcting lenses, or if visual acuity is better then 20/200 but is accompanied by a limitation in the fields of vision such that the widest diameter of the visual field subtends an angle no greater than 20 degrees.

Effect of provision

The additional standard deduction increases the tax threshold for elderly or blind taxpayers above the level for similarly situated taxpayers who do not qualify for the additional deduction. The additional amount is $1,200 on a joint return for two elderly taxpayers, raising the tax threshold in 1988 for such taxpayers from $8,900 to $10,100 (disregarding the tax credit for the elderly). Under prior tax law, the tax threshold in 1988 for a couple filing a joint return would have been about $8,160, plus an increment for inflation during 1987.

Over 80 percent of the beneficiaries of this tax provision have incomes of less than $40,000. As the table below shows, these taxpayers receive 73 percent of the tax benefits from the additional standard deduction.

TABLE 23.—DISTRIBUTION OF TAX EXPENDITURE BY INCOME CLASS: CALENDAR YEAR 1988 RATES AND INCOME LEVELS

Income class (thousands)	Returns (thousands)	Amount (millions)
Below $10	47	$3
$10 to $20	1,930	212
$20 to $30	2,414	313
$30 to $40	1,723	274
$40 to $50	776	125
$50 to $75	490	120
$75 to $100	152	36
$100 to $200	27	9
$200 and over	12	3
Total	7,572	1,095

TABLE 24.—TAX EXPENDITURE ESTIMATE: ELDERLY AND BLIND

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1988	1.4		1.4
1989	1.1		1.1
1990	1.2		1.2
1991	1.3		1.3
1992	1.4		1.4
Total 1988–92	6.4		6.4

Tax Credit for the Elderly and Disabled

Legislative history

The tax credit for the elderly and the permanently and totally disabled was enacted in the Social Security Amendments Act of 1983 (Code sec. 22). This credit replaced the previous credit for the elderly, which had been enacted in the Tax Reform Act of 1976. Prior to that provision, the tax law provided a retirement income credit, which initially was enacted in the Internal Revenue Code of 1954.

The retirement income credit was intended to remove inequities between individuals who received retirement income that was not tax-exempt and those who received social security payments which were tax-exempt. The retirement income credit was applicable to retirement income only. In 1976, the tax credit for the elderly was enacted to: (1) restore the purchasing power of the maximum amount of income eligible for the credit; (2) eliminate the complexity of the retirement income credit; and (3) allow individuals earning income, as well as individuals with only retirement income, to qualify for the credit.

In the Social Security Amendments of 1983, the credit for the elderly and permanently and totally disabled was enacted to provide greater equity between social security retirement recipients and other retirees with income below certain levels. Since social security payments over a certain threshold of adjusted gross income (i.e., $25,000 for single individuals and $32,000 on joint returns) are taxable under the 1983 amendments, the disparity in tax treatment between social security and other retirement payments was lessened for taxpayers with incomes above these thresholds.

The Congress believed that the tax treatment of an individual who is permanently and totally disabled and one who is age 65 or over should be equivalent with respect to the credit. For this reason, the credit is available to permanently and totally disabled individuals regardless of age, just as the tax treatment of social security benefits is equivalent for elderly persons and disabled persons.

Explanation of provision

Individuals who are age 65 or older may claim a nonrefundable income tax credit equal to 15 percent of a base amount. The credit also is available to an individual, regardless of age, who is retired on disability and who was permanently and totally disabled at retirement. In computing the amount of the credit, a maximum base amount is specified in the statute, and certain reductions are then made.

The maximum base amount in the case of a married couple filing jointly where both spouses are 65 or over is $7,500. In the case of a married couple filing jointly where one spouse is 65 or over and the other spouse is under 65 but permanently and totally disabled, the maximum base amount is the lesser of $7,500 or $5,000 plus disability income received by the spouse under 65. Disability income is gross income from amounts received as wages (or in lieu of wages) for the period during which the individual is out of work due to permanent and total disability. A maximum base amount of $5,000 is provided for a single taxpayer 65 or over and a married couple filing jointly where one spouse is 65 or over and the other spouse is under 65 and not permanently and totally disabled. In the case of a married couple filing jointly where both are under 65 and both are permanently and totally disabled, the maximum base amount is the lesser of $7,500 or the spouses combined disability income. When a married couple files jointly and one is permanently and totally disabled but neither is 65 or over, or in the case of a single individual under 65 who is totally and permanently disabled, the maximum base amount is the lesser of $5,000 or the disability income received by the disabled person. In the case of a married individual filing separately, if the taxpayer is 65 or over, the maximum base amount is $3,750; if the taxpayer is under 65 but permanently and totally disabled, the maximum base amount is the lesser of $3,750 or the disability income received.

The maximum base amount is reduced by the sum of certain amounts received as pensions or annuities or as disability benefits which are excluded from gross income. This includes amounts payable under title II of the Social Security Act, the Railroad Retirement Act of 1974, any law administered by the Veterans Administration, or any other amounts excludible from gross income.

A further reduction from the maximum base amount is made by one-half of the excess of adjusted gross income ("AGI") over the following amounts: $7,500 in the case of a single individual, $10,000 in the case of a joint return, or $5,000 in the case of a married individual filing a separate return.

Example: A husband and wife are both 66 and file a joint return. During the year, the husband receives a taxable pension of $5,000, wages of $3,000, and social security benefits of $1,000. The wife receives a taxable pension of $2,000, wages of $1,000, and social security benefits of $400. They receive interest income of $200 on savings. The tax credit for the elderly is computed as follows:

Maximum amount upon which credit may be based	$7,500
Less:	
Husband's social security benefits	1,000

Wife's social security benefits	400
One-half of AGI in excess of $10,000 (½ of $1,200)	600
Total	2,000
Amount on which tax credit is based ($7,500–$2,000)	5,500
Amount of credit (15 percent of $5,500)	825

TABLE 25.—DISTRIBUTION OF TAX EXPENDITURES BY INCOME CLASS: CALENDAR YEAR 1988 RATES AND INCOME LEVELS

Income class (thousands)	Returns (thousands)	Amount (millions)
Below $10	114	$34
$10 to $20	454	116
$20 to $30	70	26
$30 to $40	4	1
$40 to $50	0	0
$50 to $75	0	0
$75 to $100	0	0
$100 to $200	0	0
$200 and over	0	0
Total	642	166

TABLE 26.—TAX EXPENDITURE ESTIMATE

[Billions of dollars]

Fiscal year	Individual	Corporate	Total
1988	0.2		0.2
1989	0.2		0.2
1990	0.2		0.2
1991	0.2		0.2
1992	0.2		0.2
Total 1988–92	0.8		0.8

Earned Income Tax Credit

Legislative history

The earned income tax credit (Code sec. 32) was enacted in the Tax Reduction Act of 1975. From 1979 through 1984, the credit was 10 percent of the first $5,000 of earned income. The maximum credit amount of $500 was reduced by 12.5 cents for each dollar of adjusted gross income ("AGI") (or, if greater, earned income) in excess of $6,000. Thus, the credit was not available to families with incomes greater than $10,000.

For 1985 and 1986, the credit was 11 percent of the first $5,000 of earned income. The maximum amount of the credit ($550) was reduced by 12½ cents for each dollar of AGI (or, if greater, earned income) in excess of $6,500. Thus, the credit was not available to families with incomes greater than $11,000.

Under the Tax Reform Act of 1986, the credit is 14 percent of the first $5,714 of earned income. The maximum amount of the credit ($800) is reduced by 10 cents for each dollar of AGI (or, if greater, earned income) in excess of $6,500 ($9,000 after 1987). These amounts are before adjustment for inflation occurring after fiscal year 1984 (see discussion below).

The earned income tax credit is intended to provide tax relief to working parents with relatively low earnings. The earned income tax credit is refundable; i.e., the Internal Revenue Service makes a direct payment of the credit to eligible individuals whose income is too low to owe income taxes, or whose tax liability is less than the amount of the credit.

Explanation of provision

Eligibility.—The credit is available to certain individuals who have children. Married couples must be eligible for a dependency exemption for a child, and unmarried taxpayers must maintain a household for a child. A dependency exemption generally is available only if the taxpayer provides more than half the support of the child, and a taxpayer is considered to maintain a household only if over half the household expenses are furnished by that individual. For this purpose, AFDC benefits are not considered as support provided or furnished by the taxpayer. Thus, if more than half of an individual's or couple's income is from AFDC or another source other than their own income or resources, the earned income credit generally is not available.

To receive a credit, a person must file an income tax return at the end of the tax year and, if desired, may file an eligibility certificate with his employer in order to receive advance payments of the credit with his paycheck.

Benefits.—For taxable years beginning on or after January 1, 1987, the credit equals 14 percent of the first $5,714 [5] of earnings, including net earnings from self-employment. The size of the credit is unrelated to the number of dependents (in excess of one). For each dollar of adjusted gross income (or, if higher, earned income) above $6,500, the credit is reduced by 10 cents. The income phaseout starting point effective for taxable years starting on or after January 1, 1988 is raised to $9,000.

Interaction With AFDC and Food Stamps.—The treatment of the earned income tax credit for purposes of AFDC and food stamp benefit computations has varied since inception of the credit. When

[5] Under the Tax Reform Act of 1986, the income base eligible for the credit and the phaseout starting point are adjusted for inflation occurring after August 31, 1984. Thus, for example, the maximum amount of earned income eligible for the credit beginning in 1987 will equal $5,714 as adjusted for inflation between August 31, 1984 and August 31, 1986. These adjustments are not subject to the $50 rounding-down rule otherwise applicable under the 1986 Act to inflation adjustments. Instead, as under the generally applicable inflation adjustment rule of present law, any inflation adjustment relating to the credit that is not a multiple of $10 will be rounded to the nearest multiple of $10.

enacted in 1975, the credit was not considered income in determining AFDC and food stamp benefits, and the credit could not be received on an advance basis. From January 1979 through September 1981, the credit was treated as earned income when actually received. Receipt of the credit on an advance basis was authorized in July 1979.

From October 1981 to September 1984, the amount of the credit was treated as earned income and was imputed to the family even though it may not have been received from the employer as an advance payment. Pursuant to the Deficit Reduction Act of 1984, the credit is treated as earned income only when it is received, either as an advance payment or as a refund after conclusion of the year.

Under Federal rules, a State generally has the option of treating a tax refund as either unearned income in the month of receipt, or as a resource. However, the amount of earned income credit embodied within a tax refund is treated as earned income in the month the refund is received. If the refund is treated as unearned income, it reduces the amount of the AFDC benefit on a dollar-for-dollar basis.

Food stamp rules do not have a similar requirement. In determining the food stamp benefit, the credit would be counted as earned income for the month of receipt, if received on an advance basis, or as an asset, if received in a lump sum at the end of the year.

Effect of provision

For calendar year 1984, earned income tax credits totaled $1.443 billion, of which about $1.162 billion represented Treasury payments in excess of current year tax liability and $.281 billion was offset against the individual's tax liability. Some 6.4 million families received the credit, which averaged $226 per family. Of total recipients, over 5 million received direct earned income tax credit payments in the form of U.S. Treasury checks. Only 11,000 families received advance payments, totaling about $2.5 million in 1984. Table 27 shows the total amount of earned income credits received for each of the calendar years since the inception of the program, the number of recipient families, the amount of the credits received as Treasury checks, and the average amount of the credit received per family.

TABLE 27.—TOTAL AMOUNT OF EARNED INCOME CREDIT, NUMBER OF FAMILIES RECEIVING CREDIT, AND BUDGET OUTLAYS, CALENDAR YEARS 1975–86

Calendar year to which credit applies	Total amount of credit (in millions)	Number of families who received credit (in thousands)	"Refunded" portion of credit [1]	Average credit per family
1975	$1,250	6,215	$900	$201
1976	1,295	6,473	890	200
1977	1,127	5,627	880	200
1978	1,048	5,192	801	202
1979	2,052	7,135	1,395	288

TABLE 27.—TOTAL AMOUNT OF EARNED INCOME CREDIT, NUMBER OF FAMILIES RECEIVING CREDIT, AND BUDGET OUTLAYS, CALENDAR YEARS 1975–86—Continued

Calendar year to which credit applies	Total amount of credit (in millions)	Number of families who received credit (in thousands)	"Refunded" portion of credit [1]	Average credit per family
1980	1,986	6,954	1,370	286
1981	1,912	6,717	1,278	285
1982	1,775	6,395	1,222	278
1983	1,786	6,250	1,287	286
1984	1,443	6,376	1,162	226
1985 [2]	1,714	NA	1,506	NA
1986 [3]	1,762	NA	1,362	NA
1987 [3]	4,032	NA	1,741	NA
1988 [3]	6,052	NA	4,810	NA

[1] This is the portion of the credit that exceeds tax liability, and it is treated as a budget outlay. The rest of the credit is classified as a "tax expenditure." All these credits were paid in the following year until 1979, when advance payments of the credit were permitted by addition to the worker's paycheck.
[2] Preliminary.
[3] Projection.
NA Not available.

TABLE 28.—TAX EXPENDITURE AND OUTLAY ESTIMATE

[Billions of dollars]

Fiscal year	Tax expenditure	Outlay	Total
1988	0.8	3.3	4.1
1989	1.2	4.8	6.0
1990	1.4	5.2	6.6
1991	1.5	5.6	7.1
1992	1.7	6.1	7.8
Total 1988–92	6.6	25.0	31.6

The Concept and Measurement of Tax Expenditures

Concept of tax expenditures

Tax expenditure estimates measure the decreases in individual and corporate income tax liabilities that result from provisions in income tax laws and regulations that provide economic incentives to the private sector or tax relief to particular kinds of taxpayers. These tax provisions take the form of exclusions, credits, deductions, preferential tax rates, and deferrals of tax liability. The term tax expenditure reflects the assumption that the goals of these favorable tax provisions in many cases could be accomplished by replacing them with direct expenditure programs. Tax expenditures can be viewed as outlay programs that are not subject to the annual appropriations process and are available as entitlements to

eligible individuals and corporations. Any taxpayer who meets the criteria specified in the Internal Revenue Code may use the provision without any further action by the Federal Government. Tax expenditure provisions, unlike direct spending programs, are administered by the Internal Revenue Service.

Tax expenditure information is provided in annual publications of the Joint Committee on Taxation and in the President's budget, which contains a list of the tax expenditures in Special Analysis G. Special Analysis G of the budget contains two tables which estimate the outlay equivalent of, and the revenue loss from, each tax expenditure. The House and Senate Budget Committees publish tax expenditure revenue loss estimates in their reports that accompany budget resolutions reported to their respective houses. The Congressional Budget Office annually has published a report on tax expenditures which includes descriptive and analytical material in addition to revenue loss estimates.

The definition of tax expenditures used in this report is consistent with the Congressional Budget Act: ". . . those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability." The legislative history of the Act indicates that tax expenditures are to be defined with reference to a normal income tax structure.

As defined in the Congressional Budget Act, the concept of tax expenditures refers to the corporation and individual income taxes. Other parts of the Internal Revenue Code—excise taxes, employment taxes, estate and gift taxes—also have exceptions, exclusions, refunds and credits, which are not included in this report because they are not parts of the income tax.

Measurement of tax expenditures

Estimates of tax expenditures as revenue losses are subject to important limitations. Each tax expenditure is measured in isolation. The difference between the estimates of tax liabilities under present law, which provides for a tax preference, and the higher level of tax liabilities under the assumption that the provision does not exist, is the amount of the tax expenditure. For this computation, it generally is assumed that nothing else changes.

If two or more items were to be eliminated simultaneously, the result of the combination of changes might produce a lesser or greater revenue effect than the sum of the amounts shown for each item separately. This means that adding the amounts of various tax expenditure items is of quite limited usefulness.

If a tax expenditure item were to be eliminated, it is possible that Congress would deal with the underlying reason for enacting the tax expenditure in another way, rather than simply terminating Federal assistance of any kind. To the extent that a replacement program would be adopted, the higher revenues received as a result of the elimination of a tax expenditure might not represent a net budget gain. The nature of any alternative program cannot be anticipated: it could involve direct expenditures, direct loans, or loan guarantees; or it could involve a different form of tax expenditure, or a general reduction in tax rates. If any of these provisions

were repealed, adjustment might be made through fiscal or monetary policy to offset the effects of higher tax liabilities on the economy, but the estimates of tax expenditures do not anticipate such policy responses.

Concepts Used in Distributional Analysis

The income concept used to show the distribution of tax expenditures by income class is adjusted gross income plus (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) inside build-up on life insurance, (4) workers' compensation, (5) nontaxable social security benefits, (6) deductible contributions to individual retirement accounts, (7) minimum tax preferences, and (8) net losses, in excess of minimum tax preferences, from passive business activities (such as limited partnership activities).

This definition of income represents an attempt to include items which clearly increase the ability to pay taxes, but which are not included in the present-law definition of adjusted gross income. The adjustment for losses from certain passive business activities takes into account that investments in such activities may result in losses for tax purposes that do not represent real income.

This income definition is subject to various limitations. First, it omits certain items which clearly affect ability to consume goods and services, including accrual of pension benefits, other fringe benefits (such as military benefits, veterans benefits, and parsonage allowances), means-tested transfer payments (such as Aid to Families with Dependent Children, Supplemental Security Income, food stamps, housing subsidies, and general assistance), and imputed rent on owner-occupied homes. Second, it reflects the accounting rules in effect in 1981 (e.g., depreciation allowances, rules governing use of accrual accounting, realization taxation of gain, etc.).

All income and deduction items and tax parameters are projected to 1988 levels based on economic assumptions consistent with the February 1987 forecast of the Congressional Budget Office.

The tax return is the unit of analysis in all tables, so that each income class consists of tax returns with the stated amount of income.

Unless specifically indicated, all distributional tables exclude taxpayers under age 16.

APPENDIX J. DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF FAMILIES WITH CHILDREN [1]

Introduction

This appendix brings together data from a variety of sources and describes the changes in the demographic and economic characterstics of families with children. The topics included in this appendix are:

1. Changing family composition (table 1).
2. Living arrangements of children (tables 2 and 3).
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Changing Family Composition [1]

Since 1970, there has been a far more rapid increase in the number of one-parent families than in two-parent families. In fact, the number of two-parent families declined slightly between 1970 and 1985. In March 1985, there were 24.6 million families with children under age 18 with two parents, of which 21.9 million were white and 1.9 million were black (see table 1). The proportion of white families with two parents declined from 90 percent in 1970 to 79 percent in 1985, but the decline in incidence of two-parent families among blacks was much more pronounced, from 64 percent to 40 percent.

[1] This section borrows heavily from a CRS print entitled "Statistical and Program Data on Single-Parent Families with Children" by Carmen D. Solomon.

TABLE 1.—TWO-PARENT AND ONE-PARENT FAMILY GROUPS AS PROPORTIONS OF ALL FAMILY GROUPS WITH CHILDREN PRESENT, BY RACE: 1970, 1980 AND 1985

Subject	All races			White		Black	
	1970	1980	1985	1970	1985	1970	1985
	Number in thousands						
Total with children under 18	29,631	32,150	33,372	26,115	27,628	3,219	4,658
Two-parent family groups	25,823	25,231	24,573	23,477	21,873	2,071	1,857
One-parent family groups	3,808	6,920	8,779	2,638	5,755	1,148	2,801
Maintained by mother	3,415	6,230	7,737	2,330	4,912	1,063	2,641
Never married	248	1,063	2,208	73	787	173	1,385
Spouse absent	1,377	1,743	1,732	796	1,137	570	550
Separated	962	1,483	1,524	477	996	479	492
Divorced	1,109	2,721	3,228	930	2,593	172	570
Widowed	682	703	569	531	396	148	136
Maintained by father	393	692	1,042	307	843	85	160
	Percent distribution						
Total with children under 18	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Two-parent family groups	87.1	78.5	73.6	89.9	79.2	64.3	39.9
One-parent family groups	12.9	21.5	26.3	10.1	20.8	35.7	60.1
Maintained by mother	11.5	19.4	23.2	8.9	17.8	33.0	56.7
Never married	0.8	3.3	6.6	0.3	2.8	5.4	29.8
Spouse absent	4.6	5.4	5.2	3.0	4.1	17.7	11.8
Separated	3.2	4.6	4.6	1.8	3.6	14.9	10.6
Divorced	3.7	8.5	9.7	3.6	9.4	5.3	12.2
Widowed	2.3	2.2	1.7	2.0	1.4	4.6	2.9
Maintained by father	1.3	2.2	3.1	1.2	3.1	2.6	3.4

Note: Family groups consist of family households, related subfamilies, and unrelated subfamilies.

Source: U.S. Bureau of the Census. Current Population Reports, Series P–20, No. 398. Household and Family Characteristics: March 1984. Washington, U.S. Govt. Print. Off., 1985. p. 4.

The number of families maintained solely by the mother increased by 127 percent during the 1970–85 period. Families maintained by the mother increased from 33 to 57 percent for blacks, and from 9 to 18 percent for whites. Although the incidence of one-parent families was higher among blacks than whites, 65 percent of all families maintained by one parent in 1985 were white; 63 percent of all families maintained by the mother were white. One-parent families accounted for 26 percent of the 33.4 million families with children in 1985; of these one-parent families, 88.1 percent were maintained by the mother and 11.9 percent by the father (see table 1).

Living Arrangements of Children

In 1985, 15 million children lived with only one parent, 78 percent more than in 1970. Even though the total number of children under 18 years old in the U.S. declined from 69 million in 1970 to 62 million in 1985, the number of children affected by divorce, separation, and unmarried status of mother continued to rise. Over 23 percent of all children lived in one-parent families in 1985, compared with 12 percent in 1970 (see table 2). In addition, 2 percent of children under 18 lived with a relative other than the parent and 0.6 percent lived with someone other than a relative. Estimates based on the 1976 and 1981 National Surveys of Children indicate that in 1982 roughly 10 percent of the children living with two parents were living with a stepparent.

Of the 15 million children living with one parent, 89 percent lived with their mothers and 11 percent lived with their fathers. Between 1970 and 1985, the number of children living with only their fathers grew by 108 percent (from 748,000 to 1,554,000). Between 1970 and 1985, the proportion of all children who lived with their fathers rose from 1.1 percent to 2.5 percent.

The largest number of children in one-parent families had a parent who was divorced, followed by children whose parents were separated or never married. In 1985, of the children who lived only with one parent, 41 percent had a parent who was divorced, 23 percent had a parent who was separated, and 26 percent had a parent who had never been married. The number of children with a divorced parent more than doubled since 1970, but the number with a never-married parent grew by a multiple of nearly 7 (see table 2).

Most of the children who live with only one parent do so for only a few years, until their custodial parent remarries, reconciles, or marries for the first time.[2]

Table 3 vividly presents these trends for 1960 to 1985. During this time period the percent of children living with one parent increased from 9.2 to 23.4 percent. The percent living with a never-married parent increased from 0.4 percent to 6.0 percent.

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[2] U.S. Bureau of the Census. Current Population Reports, Special Studies, Series P-23, No. 84. Divorce, Child Custody, and Child Support. Washington, U.S. Govt. Print. Off., 1979, p. 3.

TABLE 2.—LIVING ARRANGEMENTS OF CHILDREN UNDER 18 YEARS: 1970, 1980, AND 1985

[Excludes persons under 18 years old who were maintaining households or family groups]

Living arrangements of children and marital status of parent	All races			1985 by race		
	1970	1980	1985	White	Black	Spanish origin [1]
	Numbers in thousands					
ALL CHILDREN UNDER 18 YEARS						
Total	69,162	63,427	62,475	50,836	9,479	6,057
Living with:						
Two parents	58,939	48,624	46,149	40,690	3,741	4,110
One parent	8,199	12,466	14,635	9,139	5,113	1,746
Mother only	7,451	11,406	13,081	7,929	4,837	1,612
Father only	748	1,060	1,554	1,210	276	134
Other relatives only [2]	1,547	1,949	1,303	717	538	152
Nonrelatives only [2]	477	388	388	291	87	50
	Percent distribution					
Percent	100.0	100.0	100.0	100.0	100.0	100.0
Living with:						
Two parents	85.2	76.7	73.9	80.0	39.5	67.8
One parent	11.9	19.7	23.4	18.0	53.9	28.8
Mother only	10.8	18.0	20.9	15.6	51.0	26.6
Father only	1.1	1.7	2.5	2.4	2.9	2.2
Other relatives only [2]	2.2	3.1	2.1	1.4	5.7	2.5
Nonrelatives only [2]	0.7	0.6	0.6	0.6	0.9	0.8

	Numbers in thousands					
CHILDREN LIVING WITH ONE PARENT						
Total	8,199	12,466	14,635	9,139	5,113	1,746
Marital status of parent:						
Never married	557	1,820	3,756	1,222	2,456	418
Married, spouse absent	3,521	3,898	3,750	2,404	1,238	710
Separated	2,484	3,327	3,291	2,099	1,116	638
Widowed	1,649	1,469	1,101	771	262	129
Divorced	2,473	5,281	6,030	4,741	1,158	489
	Percent distribution					
Total	100.0	100.0	100.0	100.0	100.0	100.0
Marital status of parent:						
Never married	6.8	14.6	25.7	13.3	48.0	23.9
Married, spouse absent	42.9	31.3	25.6	26.3	24.2	40.7
Separated	30.3	26.7	22.5	23.0	21.8	36.5
Widowed	20.1	11.8	7.5	8.4	5.1	7.4
Divorced	30.2	42.4	41.2	51.9	22.6	28.0

[1] Persons of Spanish origin may be of any race.
[2] See section on "Procedural Change for 1982 and 1983."

Source: U.S. Bureau of the Census. Current Population Reports, Series P–20, No. 410. Marital Status and Living Arrangements: March 1985. Washington, U.S. Govt. Print. Off., 1986, tables 4, 5, and 9.

TABLE 3.—STATUS OF CHILDREN: 1960–84

[In thousands]

	1960	1970	1975	1980	1985
Children under 18:					
Total in population	63,727	69,162	64,165	63,427	62,475
Living with 1 parent	5,832	8,199	11,245	12,466	14,635
As *ERR97*percent of all children	9.2	11.9	17.5	19.7	23.4
Living with never-married parent	243	557	1,198	1,820	3,756
As percent of all children	.4	.8	1.9	2.9	6.0
Receiving Aid to Families with Dependent Children [1]	2,314	6,214	8,095	7,419	7,198

[1] Includes some children age 18 to 22.

Source: Based on Census and DHHS publications.

Teenage Birth Rates and Welfare Receipt

Overall, trends in the birth rates to teenagers have followed the same trends as in the population at large in recent years. Since 1960, birth rates to women aged 15 to 19 have declined. As table 4 shows, in 1960 the birth rate for white women in this age group was 79.4 (births per 1,000 women in the age group). By 1970 that had declined to 57.4, and by 1984, the latest year for which data are available, the rate was 42.5, a decline of 46 percent since 1960. Birth rates for black women have declined from 147.6 in 1964 to 95.7 in 1984, a decline of 35 percent over the same period when births to white teenagers declined by 33 percent.

Birth rates among 18–19 year olds are substantially higher than among 15–17 year olds, for both races.

TABLE 4.—NUMBER OF BIRTHS AND BIRTH RATES TO WOMEN AGES 15 TO 19, 1960 to 1984

Year	Number of births, all women under 20		Birth rate [1]					
			All women 15 to 19		15 to 17		18 to 19	
	White	Black	White	Black	White	Black	White	Black
1960			79.4					
1961			79.2					
1962			73.2					
1963			68.2					
1964			63.4	147.6				
1965			60.6	144.6				
1966			60.4	142.7	26.6	97.9	108.2	219.2
1967			56.9	141.8	25.7	99.5	104.0	213.4
1968			54.9	138.7	25.6	98.2	100.5	206.1
1969	437,958	168,588	54.7	137.0	26.4	96.9	99.2	202.5
1970	467,928	179,100	57.4	147.7	29.2	101.4	101.5	204.9

TABLE 4.—NUMBER OF BIRTHS AND BIRTH RATES TO WOMEN AGES 15 TO 19, 1960 to 1984—Continued

Year	Number of births, all women under 20		Birth rate [1]					
			All women 15 to 19		15 to 17		18 to 19	
	White	Black	White	Black	White	Black	White	Black
1971	450,856	178,948	53.6	134.5	28.5	99.4	92.3	192.6
1972	438,559	179,712	51.0	129.8	29.3	99.5	84.3	179.5
1973	429,570	176,551	49.0	123.1	29.2	96.0	79.3	166.6
1974	425,205	171,721	47.9	116.5	28.7	90.0	77.3	158.7
1975	415,202	168,359	46.4	111.8	28.0	85.6	74.0	152.4
1976	398,329	160,597	44.1	104.9	26.3	80.3	70.2	142.5
1977	396,854	161,772	44.1	104.7	26.1	79.6	70.5	142.9
1978	384,572	157,069	42.9	100.9	24.9	75.0	69.4	139.7
1979	388,209	158,944	43.7	101.7	24.7	75.7	71.0	140.4
1980	392,229	156,146	44.7	100.0	25.2	73.6	72.1	138.8
1981	373,983	148,703	44.6	97.1	25.1	70.6	71.9	135.9
1982	362,101	145,929	44.6	97.0	25.2	71.2	70.8	133.3
1983	342,183	142,105	43.6	95.5	24.8	70.1	68.3	130.4
1984	320,953	134,392	42.5	95.7	23.9	69.7	68.1	132.0

[1] Births per 1,000 women in the age group.

Sources: U.S. National Center for Health Statistics. Vital Statistics of the United States, 1979: Natality. Table 1–6. U.S. National Center for Health Statistics. Monthly Vital Statistics Report: Advance Report of Final Natality Statistics. 1982, 1983 and 1984, Table 3.

At the same time that birth rates overall for 15 to 19 year olds have been declining, both the number and rate of births out of wedlock (births per 1,000 unmarried women) has been increasing. (see table 5). This apparent contradiction is not one. The classification of a birth as in or out of wedlock depends on the marital status of the mother at the time of birth, not at the time of conception. The rate of births out of wedlock, then, depends not only on the rate of conception out of wedlock but also on the proportion of women who conceive out of wedlock who marry before giving birth. Data on these issues are not available on an annual basis, but some information is available from special surveys and analyses.

Table 6 shows that between the two periods 1959–62 and 1975–78, out of all premaritally conceived births to women aged 15 to 17 the percent of premaritally conceived births that were legitimated declined for both black and white women, from 16.0 to 4.9 percent for black women and from 69.8 to 55.9 percent for white women aged 15 to 17. For women aged 18 to 19, the trend downward was even sharper, from 33.6 percent of all premaritally conceived births legitimated for blacks in 1959–62 to 10.9 percent in 1975–78, and from 72.7 to 60.4 among whites.

TABLE 5.—ESTIMATED BIRTH RATES FOR MARRIED AND UNMARRIED WOMEN AGES 15–19, BY RACE: 1966 TO 1984

[Births per 1,000 women]

Year	Marital status, race, and age					
	Married		Unmarried			
			White		Black	
	White, 15 to 19	Black, 15 to 19	15 to 17	18 to 19	15 to 17	18 to 19
1966	438.8	.....	5.4	14.1	.....	.....
1967	424.1	.....	5.6	15.3	.....	.....
1968	422.0	.....	6.2	16.6	.....	.....
1969	423.1	514.6	6.6	16.6	72.0	128.4
1970	431.8	533.3	7.5	17.5	77.9	136.4
1971	403.4	511.7	7.4	15.8	80.9	136.3
1972	364.1	500.0	8.1	15.1	83.1	129.8
1973	330.6	453.7	8.5	15.0	81.9	123.0
1974	320.1	372.4	8.9	15.4	79.4	124.9
1975	311.8	329.8	9.7	16.6	77.8	126.8
1976	306.4	319.2	9.9	17.0	74.6	121.8
1977	307.6	345.7	10.7	18.8	74.3	125.9
1978	321.8	368.6	10.5	19.5	70.3	124.3
1979	337.6	333.8	11.1	21.2	72.5	128.8
1980	348.6	360.2	11.8	23.6	69.5	120.2
1981	332.9	380.7	12.4	24.6	66.9	117.6
1982			12.9	25.1	67.6	115.8
1983			13.5	26.1	67.1	114.0
1984			13.5	27.6	66.8	116.2

Sources: U.S. National Center for Health Statistics. Vital Statistics of the United States, 1979: Natality. 1–32 and 1–33. And U.S. National Center for Health Statistics Monthly Vital Statistics Report: Advance Report of Final Natality Statistics, 1982, 1983, and 1984, Table 18.

TABLE 6.—PERCENT OF PREMARITALLY CONCEIVED BIRTHS THAT ARE LEGITIMATED, WOMEN 15 TO 17 AND 18 TO 19, 1959–78

	Percent of premaritally conceived births by race			
	White		Black	
	15 to 17	18 to 19	15 to 17	18 to 19
1959 to 1962	69.8	72.7	16.0	33.6
1963 to 1966	64.3	75.8	18.4	37.1
1967 to 1970	62.9	75.9	21.3	32.3
1971 to 1974	52.9	74.4	15.1	20.2
1975 to 1978	55.8	60.4	4.9	10.7

Source: O'Connell, Martin and Maurice J. Moore. The Legitimacy Status of First Births to U.S. Women Aged 15 to 24, 1939–1978. Family Planning Perspectives, vol. 12, No. 1. January–February, p. 18.

Table 7 illustrates the probability that an adolescent mother will be on welfare within the first 24 months after the birth of her first child.[3] Of those adolescents who had their first child in 1978 or 1979, about 24 percent reported receiving welfare at some point within the 12 months following the birth of that child. This proportion increased slightly to 28 percent in the subsequent 12 month period (13 to 24 months after birth).

Marital status at the birth of the first child. Adolescent mothers who were unmarried at the time of the birth of their first child were much more likely to receive welfare than were those teenage mothers who were married when they gave birth. Approximately 44 percent of the unmarried mothers received welfare for at least one month in the first year after the birth of their first child, as contrasted to roughly 6 percent of those who were married when they gave birth.

Both groups of young mothers were more likely to receive welfare at some point in the period 13–24 months after giving birth than they were in the first 12 months after birth. As might be expected, mothers who were unmarried when they gave birth continued to be much more likely to receive welfare—namely 50 percent of the unmarried mothers reported at least one month of welfare receipt in this period as compared to about 10 percent of the married adolescents.

Although the differences in the recipiency rates of the two marital status groups are likely to be due to a number of factors, it is useful to recognize that marriage directly affects the eligibility of the young mother in at least two ways. First, married couples are not categorically eligible for AFDC in many states.[4] Second, even in States where couples are eligible, they are likely to have higher incomes than are unmarried adolescent mothers and thus are less likely to need or to qualify for benefits.

Age at the birth of the child. Mothers who were 15- to 17-years old when they gave birth were slightly more likely to report being on welfare in the first 12 months after birth (25 percent) than were 18- to 19-year old mothers (22 percent). This difference becomes larger during the subsequent 12 months (13–24 months after giving birth), when the proportion of younger adolescent mothers who report receiving welfare in at least one month increased to roughly 35 percent, while that of older adolescent mothers stayed fairly steady at 23 percent.

The differences in the welfare recipiency patterns of adolescent mothers of different ages could be due to a number of factors. In particular, they are likely to be partially due to marital status differences between the two groups—the younger mothers in this sample were much less likely to be married than were older mothers. Other factors that might play a role include differences in

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[3] In this table, adolescent mothers are defined as those who were between the ages of 15 and 19 when they had their first child. The mothers examined here had their first children in 1978 and 1979.

[4] Through the AFDC-Unemployed Parent (AFDC-UP) program, States have the option to provide benefits to married couples where the principal earner is unemployed. In 1979, when the mothers in this sample had their children, 26 States did not provide AFDC-UP benefits—meaning that a married couple would not be eligible for assistance unless one were incapacitated.

living arrangements and in the likelihood of having a subsequent birth.

TABLE 7.—PROPORTION OF ADOLESCENT MOTHERS RECEIVING AFDC (FOR AT LEAST ONE MONTH) WITHIN THE FIRST 24 MONTHS AFTER THE BIRTH OF THEIR FIRST CHILD [1]

Characteristics of mother at time of birth of first child	Proportion receiving AFDC for at least one month in various periods after the birth of first child	
	0–12 months [2]	13–24 months
All	24	28
Marital status:		
Married	6	10
Unmarried	44	48
Age:		
15 to 17	25	35
18 to 19	22	23

[1] Adolescent mothers are defined as all women who were between the ages of 15 and 19 when they had their first child. Age and marital status are determined at the time of the birth of the child.

[2] Roughly 6 percent of the adolescent mothers reported receiving welfare during their pregnancy. In 1979, 34 States allowed pregnant women with no other children to receive AFDC during their pregnancy, although the exact timing of such assistance varied.

Source: Congressional Budget Office calculations from the National Longitudinal Survey of Youth (1979–80).

Note: These estimates are based on first births to a group of adolescent women in 1978 and 1979. As the findings are based on small samples, they should be interpreted as general estimates of patterns of welfare recipiency rather than as precise estimates of actual population characteristics.

Poverty Data

HOW POVERTY IS MEASURED

When the Federal Government began measuring poverty in the early 1960's, the continued existence of poor people in a time of the "Affluent Society" seemed anomalous. Official concern soon translated into efforts to measure the size of the poverty population, and the search began for programmatic ways to alleviate poverty. The first rough estimates of the incidence of poverty were based on survey data indicating that families generally spent about one-third of their income for food. A poverty level income was then calculated by using as a yardstick the amount of money necessary to purchase the lowest cost "nutritionally adequate" diet calculated by the Department of Agriculture (roughly equivalent to the current Thrifty Food Plan). This price tag was multiplied by 3 to produce a poverty threshold. Thus, this procedure assumed that if a family did not have enough income to buy the lowest nutritionally adequate diet, and twice that amount for other goods and services, it was "poor." Appropriate adjustments were made for the size of the family, sex of family head, and for whether the family lived on the farm or not. Farm families were assumed not to need as much cash income because more of their needs could be met through farm products—particularly food. (Differentials for sex of family head and for farm-nonfarm residence were abolished in

1981.) Policy officials made one change to the basic approach for calculating the level of poverty in 1969. Current poverty levels are established each year simply by increasing the previous year's level by the change in the Consumer Price Index (CPI) rather than multiplying the cost of the Thrifty Food Plan by 3. The poverty thresholds for selected years are shown in table 8.

TABLE 8.—WEIGHTED AVERAGE POVERTY THRESHOLDS FOR NONFARM FAMILIES OF SPECIFIED SIZE, SELECTED YEARS, 1959–86

Calendar year	Unrelated individuals			Families of 2 or more persons							
				2 persons							
	All ages	Under age 65	Aged 65 or older	All ages	Head under age 65	Head aged 65 or older	3 persons	4 persons	5 persons	6 persons	7 persons or more
1959	$1,467	$1,503	$1,397	$1,894	$1,952	$1,761	$2,324	$2,973	$3,506	$3,944	$4,849
1960	1,490	1,526	1,418	1,924	1,982	1,788	2,359	3,022	3,560	4,002	4,921
1965	1,582	1,626	1,512	2,048	2,114	1,906	2,514	3,223	3,797	4,264	5,248
1970	1,954	2,010	1,861	2,525	2,604	2,348	3,099	3,968	4,680	5,260	6,468
1975	2,724	1,797	2,581	3,506	3,617	3,257	4,293	5,500	6,499	7,316	9,022
1976	2,884	2,959	2,730	3,711	3,826	3,445	4,540	5,815	6,876	7,760	9,588
1977	3,075	3,152	2,906	3,951	4,072	3,666	4,833	6,191	7,320	8,261	10,216
1978	3,311	3,392	3,127	4,249	4,383	3,944	5,201	6,662	7,880	8,891	11,002
1979	3,689	3,778	3,479	4,725	4,878	4,390	5,784	7,412	8,775	9,914	12,280
1980	4,190	4,290	3,949	5,363	5,537	4,983	6,565	8,414	9,966	11,269	[1] 12,761
1981	4,620	4,729	4,359	5,917	6,111	5,498	7,250	9,287	11,007	12,449	[1] 14,110
1982	4,901	5,019	4,626	6,281	6,487	5,836	7,693	9,862	11,684	13,207	[1] 15,036
1983	5,061	5,180	4,775	6,483	6,697	6,023	7,938	10,178	12,049	13,630	[1] 15,500
1984	5,278	5,400	4,979	6,762	6,983	6,282	8,277	10,609	12,566	14,207	[1] 16,096
1985	5,469	5,593	5,156	6,998	7,231	6,503	8,573	10,989	13,007	14,696	[1] 16,656
1986 (est.)	5,574	5,701	5,255	7,133	7,370	6,628	8,738	11,200	13,257	14,979	16,976

[1] Poverty threshold for 7 persons, not 7 persons or more.

Source: Bureau of the Census, technical papers.

TRENDS IN THE OVERALL POVERTY RATE [5]

About 14 percent of the U.S. population, 33.1 million people, had family incomes below the official poverty threshold in 1985. This is a decline from the 1984 poverty rate of 14.4 percent.

This section focuses on historical data for the time period 1959–85. Throughout this time period there were substantial differences between the overall poverty rate and the poverty rate of certain demographic subgroups (table 9). The overall poverty rate declined from 22.4 percent in 1959 to 11.1 in 1973, climbed to 15.2 percent in 1983 and then fell to 14.0 percent in 1985. While the rates for some demographic groups have declined, a number of rates have remained relatively high. The poverty rate for blacks failed to fall below 30.3 percent over this period. The rate for individuals in a family with a female head did not fall below 32 percent. The poverty rate for children was higher than 14 percent throughout these years.

The trends for these and other demographic groups are described below using the official census definition of poverty which is based upon pretax cash income. The census poverty rate is one measure of poverty that has been fairly standard over time. This type of measure can be useful in measuring progress against poverty. However, it should be noted that the method of estimating the poverty threshold was revised by the Census Bureau four times over this period—in 1966, 1974, 1979, and 1981. These revisions have had an impact upon the number of people in poverty. The first two revisions slightly reduced the number of poor, while the more recent changes increased the number. In 1984, the Census Bureau revised their method of imputing missing values for interest income. This revision lowered the poverty rate slightly.

TABLE 9.—POVERTY RATES AND NUMBERS OF PEOPLE IN POVERTY FOR SELECTED DEMOGRAPHIC GROUPS OVER TIME

Year	Overall	Aged	Children [1]	Individuals in female-headed families	Blacks	Spanish origin [2]	Whites
			[Numbers in thousands]				
1959	39,490	5,481	17,208	10,390	9,927	NA	28,484
1960	39,851	NA	17,288	10,663	NA	NA	28,309
1965	33,185	NA	14,388	11,058	NA	NA	22,496
1966	28,510	5,114	12,146	10,250	8,867	NA	19,290

[5] All poverty trend information is based upon published Census Bureau data contained in "Money Income and Poverty Status of Families: 1978," p–60, No. 124; "Money Income and Poverty Status of Families: 1982," p–60, No. 140; "Money Income and Poverty Status of Families and Persons in the United States: 1983," p–60, No. 145; "Money Income and Poverty Status of Families and Persons in the United States: 1984," p–60, No. 149; and "Money Income and Poverty Status of Families: 1985," p–60, No. 154. All figures for children are for related children under 18 in families. These figures may differ with other parts of this report which provide a more refined breakdown of this age category. Data for blacks, the aged, and nonaged population were not available for the years 1961 to 1965.

TABLE 9.—POVERTY RATES AND NUMBERS OF PEOPLE IN POVERTY FOR SELECTED DEMOGRAPHIC GROUPS OVER TIME—Continued

Year	Overall	Aged	Children [1]	Individuals in female-headed families	Blacks	Spanish origin [2]	Whites
1967	27,769	5,388	11,427	10,591	8,486	NA	18,983
1968	25,389	4,632	10,739	10,364	7,616	NA	17,395
1969	24,147	4,787	9,501	10,412	7,095	NA	16,659
1970	25,420	4,793	10,235	11,154	7,548	NA	17,484
1971	25,559	4,273	10,344	11,409	7,396	NA	17,780
1972	24,460	3,738	10,082	11,587	7,710	2,414	16,203
1973	22,973	3,354	9,453	11,357	7,388	2,366	15,142
1974	23,370	3,085	9,967	11,469	7,182	2,575	15,736
1975	25,877	3,317	10,882	12,268	7,545	2,991	17,770
1976	24,975	3,313	10,081	12,586	7,595	2,783	16,713
1977	24,720	3,177	10,028	12,624	7,726	2,700	16,416
1978	24,497	3,233	9,722	12,880	7,625	2,607	16,259
1979	26,072	3,682	9,993	13,503	8,050	2,921	17,214
1980	29,272	3,871	11,114	14,649	8,579	3,491	19,699
1981	31,822	3,853	12,068	15,738	9,173	3,713	21,553
1982	34,398	3,751	13,139	16,336	9,697	4,301	23,517
1983	35,303	3,625	13,427	16,713	9,882	4,633	23,984
1984	33,700	3,330	12,929	16,440	9,490	4,806	22,955
1985	33,064	3,456	12,483	16,365	8,926	5,236	22,860
			Percent				
1959	22.4	35.2	26.9	50.2	55.1	NA	18.1
1960	22.2	NA	26.5	49.5	NA	NA	17.8
1965	17.3	NA	20.7	46.0	NA	NA	13.3
1966	14.7	28.5	17.4	41.0	41.8	NA	11.3
1967	14.2	29.5	16.3	40.6	39.3	NA	11.0
1968	12.8	25.0	15.3	38.9	34.7	NA	10.0
1969	12.1	25.3	13.8	38.4	32.2	NA	9.5
1970	12.6	24.6	14.9	38.2	33.5	NA	9.9
1971	12.5	21.6	15.1	38.0	32.5	NA	9.9
1972	11.9	18.6	14.9	36.9	33.3	22.8	9.0
1973	11.1	16.3	14.2	34.9	31.4	21.9	8.4
1974	11.2	14.6	15.1	33.6	30.3	23.0	8.6
1975	12.3	15.3	16.8	34.6	31.3	26.9	9.7
1976	11.8	15.0	15.8	34.4	31.1	24.7	9.1
1977	11.6	14.1	16.0	32.8	31.3	22.4	8.9
1978	11.4	14.0	15.7	32.3	30.6	21.6	8.7
1979	11.7	15.2	16.0	32.0	31.0	21.8	9.0
1980	13.0	15.7	17.9	33.8	32.5	30.8	10.2
1981	14.0	15.3	19.5	35.2	34.2	26.5	11.1
1982	15.0	14.6	21.3	36.2	35.6	29.9	12.0
1983	~~15.2~~	13.8	21.8	35.6	35.7	28.0	12.1
1984	14.4	12.4	21.0	34.0	33.8	28.4	11.5

TABLE 9.—POVERTY RATES AND NUMBERS OF PEOPLE IN POVERTY FOR SELECTED DEMOGRAPHIC GROUPS OVER TIME—Continued

Year	Overall	Aged	Children [1]	Individuals in female-headed families	Blacks	Spanish origin [2]	Whites
1985	14.0	12.6	20.1	33.5	31.3	29.0	11.4

[1] Related children in families under 18.
[2] Spanish origin may be of any race.

NA—Not available.

Source: Bureau of the Census, Technical Paper 56, table 1; series P–60: No. 134, table 15; No. 140, table 15; No. 145, table 15; No. 149, table 15; No. 152, table 1; No. 154, table 16.

TABLE 10.—COMPOSITION OF POVERTY POPULATION FOR SELECTED DEMOGRAPHIC GROUPS

[Percent of poverty population]

	1959	1966	1975	1982	1983	1984	1985
Aged	13.9	17.9	12.8	10.9	10.5	9.9	10.5
Children	43.6	42.6	42.1	38.2	37.9	38.4	37.7
Nonaged adults	42.5	39.5	45.1	50.9	51.6	51.7	51.8
Individuals in female-headed families	26.3	36.0	47.4	47.5	47.4	48.8	49.5
Individuals in male present families	73.7	64.0	52.6	52.5	52.6	51.2	50.5
Blacks	25.1	31.1	29.2	28.2	27.8	28.2	27.0
Whites	72.1	67.7	68.7	68.4	68.1	68.1	69.1
Other races	2.8	1.2	2.1	3.4	4.1	3.7	3.9
Spanish origin [1]	NA	NA	11.6	12.5	13.1	14.3	15.8

[1] Spanish origin may be of any race.

Source: Estimates based on data from "Money Income and Poverty Status of Families and Persons in the United States: 1985," p–60. No. 154.

In the late 1950's and early 1960's the number of poor persons in the United States stood around 39.5 million, representing approximately 22 percent of the total population. Between 1959 and 1969 this number declined at an annual rate of roughly 1.5 million per year. The largest decline in the number of people below the poverty threshold for this 10-year period occurred between 1964 and 1969. From 1969 to 1971 the rate stayed about the same, perhaps as a result of the sluggish economy. From 1971 to 1973 the rate continued to decline, but at a slower pace than in the earlier period. In 1973 the overall poverty rate was 11.1 percent, its lowest level over the entire 24-year period. This rate represented 23.0 million individuals in families with incomes below the poverty threshold. During the recession of 1974 and 1975 the rate increased slightly to 12.3 percent. From 1975 through 1978 the rate varied between 11.4 percent and 12.3 percent. Since 1978, the poverty rate has increased. By 1983 the overall rate had increased 34 percent from its

1978 level, to 15.3 percent. The 1985 poverty rate of 14.0 represents a 3 percent decrease from the 1984 rate.

POVERTY RATES BY FAMILY TYPE [6]

Female-headed families with children, and unrelated individuals are more likely to be poor than other families with children or families with aged members. Table 11 shows that in 1985, 46.0 percent of female-headed families with children were poor, as opposed to 9.3 percent for male-present families. Although only about 7.1 percent of all families with an aged member were poor, 25.6 percent of all aged unrelated individuals were poor. About 19.8 percent of nonaged unrelated individuals were poor.

[6] Income figures reported in this section were derived from the March 1986 Current Population Survey (CPS) computer data tape. There is a tendency in surveys, such as the CPS, for respondents to underreport their incomes by both source and amount. Reporting of income from earnings is usually more accurate than the reporting of income from other sources. In general, CPS estimates of amounts or numbers of recipients of various cash and noncash transfer programs tend to be lower than administrative program totals. As a result, the data are a better reflection of general trends and patterns than of absolute numbers with income from a particular source, or the amount received.

Unrelated subfamilies are included as families in this analysis. The Census Bureau excludes such families from its poverty counts.

TABLE 11.—PERCENTAGE OF FAMILIES AND UNRELATED INDIVIDUALS BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD,[1] 1985

	Ratio of total income to poverty threshold								Poor	Nonpoor	Total (in thousands)
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over			
Total:											
Families	4.5	3.5	3.6	4.0	4.6	9.4	19.7	50.6	11.6	88.4	64,063
Unrelated individuals	7.5	5.5	8.5	7.6	7.0	11.0	17.2	35.8	21.4	78.5	31,351
No members age 65 or over:											
Families	5.1	3.9	3.6	3.7	4.4	8.7	18.9	51.7	12.7	87.3	52,116
Unrelated individuals	9.3	5.2	5.3	4.7	5.4	9.9	17.8	42.5	19.8	80.2	22,418
Any member age 65 or over:											
Families	1.8	1.7	3.6	5.1	5.9	12.5	23.4	45.9	7.1	92.9	11,947
Unrelated individuals	2.7	6.4	16.4	14.8	11.1	14.0	15.6	19.0	25.6	74.4	8,923
Families with children:											
Female headed family, no husband present	21.5	15.0	9.4	7.2	7.3	10.8	16.3	12.5	46.0	54.0	7,250
Male present families	2.9	2.8	3.5	4.1	5.1	10.4	23.3	47.8	9.3	90.7	26,702

[1] Based on census ("Orshansky") poverty levels.

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

Income of Families With Children

Table 12 shows the percent of female-headed families with an absent husband which received income from various sources. The table shows that the percentage of female-headed families with earnings (wages, salaries, self-employment and farm income), alimony or child support, interest and dividends, and social security, tends to increase with distance above the poverty threshold. In turn, families below the poverty threshold are more likely to receive public cash assistance, presumably AFDC, and food stamps—a form of near-cash assistance.

Nearly half (49 percent) of all poor female-headed families with children had income from earnings. However, earnings, on average, accounted for about 34 cents of every dollar of income received (table 13). Three out of four poor families between 75 and 100 percent of poverty had income from earnings; for these families, earnings accounted for half (50 percent) of total income. In contrast, 96 percent of nonpoor female-headed families had earnings which accounted for 79 percent of their total income.

TABLE 12.—PERCENT OF FEMALE-HEADED FAMILIES WITH CHILDREN WITH INCOME FROM VARIOUS SOURCES, BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD,[1] 1985

	Ratio of total income to poverty threshold										
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor	Total
Number of families (in thousands)	(1,562)	(1,086)	(685)	(519)	(529)	(783)	(1,181)	(906)	(3,332)	(3,918)	(7,250)
Earnings	35.8	51.6	75.7	86.4	92.2	95.8	97.8	99.3	49.2	95.5	74.2
OASDI, railroad retirement	7.0	12.5	18.1	19.1	19.4	17.9	16.7	18.6	11.1	18.1	14.8
Pensions	.7	1.4	2.1	3.1	2.6	2.2	3.7	9.2	1.2	4.4	2.9
Unemployment compensation, workers compensation, veterans payments	3.6	6.3	9.5	14.1	14.3	15.4	12.6	6.6	5.7	12.2	9.2
AFDC, SSI, general assistance	66.7	70.8	47.9	30.0	22.4	10.1	5.8	2.9	64.2	11.4	35.7
Child support, alimony	18.8	23.2	27.7	30.1	42.1	43.9	50.6	50.4	22.1	45.3	34.7
Interest, dividends	7.4	8.9	16.4	26.9	32.4	40.2	56.7	79.0	9.7	51.3	32.2
Food Stamps	73.2	74.2	54.0	32.1	19.4	8.5	3.0	.9	69.6	9.7	37.2
Housing assistance	33.1	31.0	25.7	14.5	13.3	7.1	2.8	1.1	30.9	6.2	17.6
Family characteristics:											
Percent never-married	34.8	35.0	23.9	16.6	16.3	12.8	13.2	6.3	32.7	12.4	21.7
Percent with head age 15 to 19	3.2	2.5	1.1	1.5	.7	.....	.....	.2	2.5	.3	1.4
Percent with head age 20 to 29	44.9	38.6	29.4	22.2	23.1	18.8	14.2	8.4	39.7	16.1	26.9
Percent with head 30 and over	51.8	58.9	69.5	76.3	76.2	81.2	85.8	91.4	57.8	83.6	71.7
Percent white non-Hispanic [2]	38.8	44.2	52.6	54.2	61.1	65.6	72.5	78.1	43.4	68.5	56.9
Percent black non-Hispanic	47.5	36.6	32.9	33.3	30.6	26.5	21.2	16.9	41.0	24.1	31.9
Percent Hispanic	13.6	19.2	14.6	12.4	8.2	8.0	6.3	4.9	15.6	7.4	11.2

[1] Based on census ("Orshansky") poverty levels.

[2] Includes "other races."

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

TABLE 13.—PERCENT OF TOTAL FAMILY INCOME FROM VARIOUS SOURCES, BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD FOR FEMALE-HEADED FAMILIES WITH CHILDREN, 1985 [1]

	Ratio of total income to poverty threshold										
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor	Total
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	19.8	30.9	49.7	67.6	73.0	77.8	81.3	79.7	34.4	78.6	71.4
OASDI, railroad retirement	6.4	7.8	9.8	9.4	8.4	7.7	4.7	3.4	8.1	5.2	5.7
Pensions	.2	.6	.8	1.1	.6	.4	.6	1.6	.5	1.0	.9
Unemployment compensation, workers compensation, veterans payments	1.3	1.6	2.7	3.2	2.4	2.1	1.1	.4	1.9	1.2	1.3
AFDC, SSI, general assistance	64.3	52.8	28.8	10.5	6.2	2.0	1.1	.3	47.6	1.9	9.4
Child support, alimony	7.5	5.8	7.7	7.3	8.4	9.0	8.9	6.7	6.9	7.9	7.7
Interest, dividends	.5	.6	.6	.9	1.0	1.1	2.3	7.9	.6	4.2	3.6
Food stamps [2]	(46.1)	(18.3)	(6.5)	(2.8)	(1.1)	(.5)	(.1)	(.0)	(21.7)	(.4)	(3.9)
Housing assistance [2]	(20.5)	(10.3)	(5.7)	(2.0)	(1.4)	(.5)	(.2)	(.1)	(11.4)	(.4)	(2.2)
Mean income per family member	$819	$1,780	$2,513	$3,220	$4,043	$5,218	$7,281	$12,781	$1,470	$7,071	$4,383
Mean family size	3.5	3.4	3.3	3.3	3.2	3.1	3.1	3.0	3.4	3.1	3.2
Percent with 50 percent or more of family income from cash public assistance	54.5	48.9	23.7	6.4	1.4	.2	.2	.....	46.3	1.1	21.9
Percent with 90 percent or more of family income from cash public assistance	41.6	35.9	12.4	1.4	.2	.....	.....	.....	33.7	.2	15.6

[1] Based on census ("Orshansky") poverty levels.

[2] The cash value of food stamps and housing assistance were estimated using their market values. Their cash values are excluded from total income for purposes of determining poverty status as well as for calculating the percentage share of total income. The numbers in this row for food stamps and housing assistance represent the added percentage contribution to total cash income.

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

It is interesting to note that nonpoor female-headed families were more than twice as likely as poor families to have received child support or alimony—45 percent compared to about 22 percent. For poor and nonpoor female-headed families alike, child support amounted to about 7 to 8 percent of total income.

Cash public assistance—mostly AFDC—was the major source of income received by the 3.3 million poor female-headed families with children in 1985. Approximately 64 percent of these families received cash public assistance which, on average, accounted for about 48 cents of every dollar received.

Food stamps, although not cash income, were an important source of income to poor female-headed families.[7] Nearly 70 percent received food stamps at some time during the year. For each dollar of cash income received, food stamps, on average, provided an additional 22 cents.

Among male present families (mostly married couple families) with children who were poor, earnings, on average, were the largest component of total income (see tables 14 and 15). Some 80 percent of all such families had income from earnings, which accounted for 72 cents of every dollar received. About 17.3 percent of poor families received income from either unemployment compensation, workers' compensation, or veterans' payments, which was about the same as the percentage of nonpoor families receiving income from these sources. These sources accounted for about 4 cents of every dollar received by the poor, and about 1 cent of every dollar received by the nonpoor. In 1983, 23.0 percent of poor families received income from these sources. As table 14 shows, about 26 percent of poor families headed by a male received cash public assistance, which, on average, accounted for 15 cents of each dollar which all poor families received.

Poor male present families were much less likely than female-headed families to have received food stamps. Only about 43 percent of poor male present families received food stamps, compared to 70 percent of female-headed families.

In 1982–83, 32.5 percent of all poor children in married-couple families, and 5.5 percent of all poor children in female-headed families, had a parent who worked full-time year round. This means that an estimated 2.5 million children were poor (more than 2.1 million in married-couple families) despite a parent's earnings from more than 2,000 hours of work.

The share of poor married-couple families with at least one full-time working parent was 34.7 percent for whites, 22.7 percent for blacks. The share of poor mother-child families with a full-time working mother was 5.1 percent for whites, 6 percent for blacks.

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[7] The cash value of food stamps was not included as part of total income for purposes of either determining poverty status, or in the base for calculating the percentage share of total income.

TABLE 14.—PERCENT OF MALE PRESENT FAMILIES WITH CHILDREN WITH INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] 1985

	Ratio of total income to poverty threshold										
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor	Total
Number of families (in thousands)	784	755	933	1,096	1,358	2,778	6,224	12,773	2,471	24,230	26,702
Earnings	62.7	83.6	91.9	93.6	96.8	98.3	99.5	99.8	80.1	99.1	97.3
OASDI, railroad retirement	6.2	9.0	10.8	9.8	10.0	7.5	5.3	3.9	8.8	5.3	5.6
Pensions	.8	1.3	2.7	2.2	3.4	3.2	3.6	4.7	1.7	4.1	3.9
Unemployment compensation, workers compensation, veterans payments	12.0	19.6	20.0	23.2	22.6	19.8	18.1	12.1	17.3	15.6	15.8
AFDC, SSI, general assistance	25.6	35.4	18.5	11.6	9.2	5.5	2.5	.9	25.9	2.8	4.9
Child support, alimony	11.0	8.2	10.4	13.1	12.7	11.8	12.9	13.4	9.9	13.1	12.8
Interest, dividends	22.6	17.8	24.1	34.0	40.3	49.7	63.9	83.2	21.7	69.7	65.3
Food stamps	43.2	51.7	35.2	22.1	12.3	6.3	1.7	.2	42.8	3.0	6.7
Housing assistance	8.9	12.2	6.6	4.9	3.9	2.3	1.1	.1	9.0	1.1	1.8
Family characteristics:											
Percent with head age 15 to 19	4.3	1.5	1.4	.8	1.1	.2	.1	.....	2.3	.2	.4
Percent with head age 20 to 29	29.3	25.7	27.6	33.1	26.4	25.9	20.3	11.4	27.6	17.2	18.1
Percent with head age 30 and over	66.4	72.8	70.9	66.1	72.5	73.9	79.6	88.6	70.1	82.7	81.5
Percent white non-Hispanic [2]	71.9	66.8	65.2	68.5	66.8	76.8	84.2	89.6	67.8	84.5	83.0
Percent black non-Hispanic	12.0	12.5	15.2	14.9	17.6	11.2	8.4	6.0	13.4	8.3	8.7
Percent Hispanic	16.0	20.8	19.6	16.5	15.6	12.1	7.5	4.3	18.8	7.2	8.3

[1] Based on census ("Orshansky") poverty levels.

[2] Includes "other" races.

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

TABLE 15.—PERCENT OF TOTAL FAMILY INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] FOR MALE PRESENT FAMILIES WITH CHILDREN: 1985

	Ratio of total income to poverty threshold										
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor	Total
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	60.8	65.1	78.2	83.8	86.8	91.0	94.0	93.2	71.6	92.9	92.5
OASDI, railroad retirement	5.3	5.8	6.3	5.3	4.1	2.4	1.3	.5	6.0	.9	1.0
Pensions	.4	.5	1.0	.9	.7	1.0	.8	.9	.7	.9	.9
Unemployment compensation, workers compensation, veterans payments	4.5	4.9	3.5	4.2	3.4	2.4	1.4	.5	4.1	.9	1.0
AFDC, SSI, general assistance	24.1	21.0	8.2	3.0	2.2	.8	.3	.1	14.5	.2	.5
Child support, alimony	2.9	1.5	1.8	2.0	1.4	1.1	.8	.7	1.9	.8	.8
Interest, dividends	2.1	1.3	1.0	.8	1.4	1.3	1.5	4.1	1.2	3.3	3.3
Food stamps [2]	(27.0)	(10.8)	(3.7)	(1.3)	(.5)	(.2)	(.0)	(.0)	(9.2)	(.1)	(.2)
Subsidized housing	(4.9)	(2.7)	(.9)	(.5)	(.3)	(.1)	(.1)	(.0)	(2.0)	(.0)	(.1)
Mean income per family member	$596	$1,643	$2,291	$2,978	$3,612	$4,642	$6,684	$13,468	$1,568	$9,460	$8,650
Mean family size	4.4	4.7	4.6	4.4	4.5	4.4	4.2	3.9	4.6	4.1	4.1

[1] Based on census ("Orshansky") poverty levels.

[2] The cash value of food stamps and housing assistance were estimated using their market values. Their cash values are excluded from total income for purposes of determining poverty status as well as for calculating the percentage share of total income. The numbers in this row for food stamps and housing assistance represent the added percentage contribution to total cash income.

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

Antipoverty Effectiveness of Various Cash and Near-Cash Income Sources

This section explores the effectiveness of various income sources in addressing poverty. As shown earlier, families differ markedly by the combinations of income upon which they rely for support. The data for aged individuals is analyzed in Appendix B.

One way of assessing the antipoverty effectiveness of various income sources is to estimate the number of persons who would be counted as poor if a particular source of income were not received (table 16). The additional number of persons that are counted as poor provides an estimate of the number of people lifted out of poverty by a particular income source. For example, the effect of social security upon poverty can be seen by comparing the number who would be counted as poor if they did not receive social security, with the number of poor after social security income is counted.

Another way of assessing the effectiveness of various income sources upon poverty is by estimating the degree to which those sources reduce the gap between a poor family's income and the poverty threshold (table 17). This concept is sometimes known as the "poverty gap" or the "poverty income deficit." A cash transfer program which is highly targeted on the poor may do little to eliminate poverty—that is, to reduce the number who are counted as poor—but such a program may still have a very real impact by reducing the degree of poverty as viewed in terms of the poverty gap.

Tables 16 and 17 show the relative antipoverty effect of various income sources in 1985, upon children, nonaged adults, and the total population. Table 16 shows the estimated number of poor persons and the poverty rate which would result under various income definitions. For example, the first column shows the number of persons who were poor, and the poverty rate, in 1985. The second column shows how many persons would be poor if they had only earnings and miscellaneous sources of income (interest, dividends, alimony and child support) upon which to depend. Similarly, the third column shows how many persons would be counted as poor if they had all sources of income currently available to them, except for social security and railroad retirement. The relative effect of each source can be seen by comparing the number in poverty under the alternate income definitions with the first column. For purposes of illustration, the cash value of food stamps is also included even though food stamps are not included as income under the existing official definition of poverty. Table 17 is similar to table 16, except that it shows the aggregate poverty gap (in millions of dollars) and average poverty gap [8] per poor person. The aggregate poverty gap is the amount of dollars that would be required to give all persons in poverty an income equal to the poverty line.

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[8] The average poverty gap per poor person is the total family poverty gap divided by the number of family members. Since poverty is based on a family income definition, completely filling the poverty gap for children, for example, would not remove all children from poverty, since the poverty gap for other family members would have to be reduced as well.

TABLE 16.—PERSONS IN POVERTY UNDER VARIOUS INCOME CONCEPTS, BY AGE GROUP: 1985

	Total income official poverty measure	Only earnings, dividends, interest, and miscellaneous income	Total income less				Total income plus food stamps [1]
			Social security, railroad retirement	Pensions	Unemployment compensation, worker's compensation, veterans pension	AFDC, SSI, general assistance	
Total (in thousands)	$33,064	$56,006	$46,673	$35,574	$35,295	$35,171	$31,895
Children (less than 18)	13,010	15,106	13,824	13,166	13,657	13,556	12,548
Persons age 18–64	16,598	24,346	19,854	17,995	17,888	17,661	16,027
Total (percent)	14.0	23.7	19.7	15.0	14.9	14.9	13.5
Children (less than 18)	20.7	24.0	22.0	20.9	21.7	21.6	20.0
Persons age 18–64	11.3	16.6	13.6	12.3	12.2	12.1	10.9
Total (percentage reduction in poverty)			−29.2	−7.1	−6.3	−4.0	−5.3
Children (less than 18)			−5.9	−1.2	−4.7	−4.0	−3.6
Persons age 18–64			−16.4	−7.8	−7.2	−6.0	−3.4

[1] The cash value of food stamps is estimated at its market value.

Sources: March 1986 Current Population Survey (CPS). Table prepared by CRS.

TABLE 17.—POVERTY GAP UNDER VARIOUS INCOME CONCEPTS, BY AGE GROUP: 1985

	Total income official poverty measure	Only earnings, dividends, interest, and miscellaneous income	Total income less				Total income plus food stamps [1]
			Social security, railroad retirement	Pensions	Unemployment compensation, worker's compensation, veterans pension	AFDC, SSI, general assistance	
Total aggregate poverty gap (in millions)	$47,823	$135,231	$91,750	$52,550	$52,224	$64,691	$41,864
Children (less than 18)	16,284	27,155	18,650	16,512	17,245	23,106	13,199
Persons age 18–64	27,363	55,952	36,948	30,372	30,312	35,366	24,740
Total average gap per poor person [2]	1,446	2,415	1,966	1,477	1,480	1,839	1,313
Children (less than 18)	1,252	1,798	1,349	1,254	1,263	1,705	1,052
Persons age 18–64	1,649	2,298	1,861	1,688	1,694	2,002	1,544
Total percentage reduction in aggregate gap			−47.9	−9.0	−8.4	−26.1	−12.5
Children (less than 18)			−12.7	−1.4	−5.6	−29.5	−18.9
Persons age 18–64			−25.9	−9.9	−9.7	−22.6	−9.6

[1] The cash value of food stamps is estimated at its market value.

[2] The average poverty gap per poor person is the total family poverty gap divided by the number of family members. Since poverty is based on a family income definition, completely filling the gap for children, for example, would not remove all children from poverty, since the poverty gap for other family members would have to be reduced as well.

Source: March 1986 Current Popululion Survey (CPS). Table prepared by CRS.

Tables 18–20 examine the antipoverty effectiveness of cash and noncash transfers from 1979 to 1985. These tables were prepared by the Congressional Budget Office using Census Bureau data. Table 18 presents information on all individuals; table 19 presents data for individuals living in families and unrelated subfamilies with related children under 18, and table 20 presents data for individuals living in families with an unmarried head with related children under 18.

All statistics are based on Current Population Survey (CPS) data for the relevant year, unadjusted for possible underreporting. Asset income data have been adjusted for 1979 through 1983, however, to make them comparable to 1984 and 1985 data. This adjustment involved applying a more detailed methodology to impute asset income to people who reported receiving asset income but did not report the amount received. The effect of the changes is to increase incomes, particularly for the elderly. For the entire population, the poverty rate is reduced by about 0.1 percentage point in each year, 1979–1983. It was not possible, however, to adjust the data from earlier years to reflect the other change made in 1984, the revised weighting of persons of Spanish origin.

Federal personal income taxes and Social Security payroll taxes were estimated with a microsimulation model using tax schedules and laws in effect in each year. In order to make taxes consistent with the incomes reported on the CPS, no adjustments were made for CPS underreporting and taxes were not estimated for capital gains or other taxable income not reported in the CPS. Statistics of Income (SOI) data were used to assign itemized deductions and Individual Retirement Account (IRA) contributions to tax filing units, while child care expenses were estimated based on data from the 1979 Panel Study of Income Dynamics (PSID). Payroll tax estimates were based on self-employment income and wages and salaries of all workers except Federal, railroad, and some state employees.

All valuations of in-kind transfers are those estimated by the Bureau of the Census using a *market value* valuation technique.[9] The market value generally attempts to measure the private market cost of benefits provided in kind. Food stamps are assigned their value, while school lunches are assigned the average amount of Federal subsidy per child. Housing assistance is valued as the difference between the estimated market rent (based on the American Housing Survey) and the reduced rent paid by subsidized households.

Poverty under six different income concepts was measured. "Before transfers" is all cash income prior to any benefits from government programs. This would include all earnings, pension, income from savings, self-employment income, etc. "Plus social insurance" adds to income all benefits from social insurance programs such as workers' compensation and unemployment compensation. "Plus means-tested cash transfers" adds to income all

[9] See Bureau of the Census, "Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effect on Poverty," Technical Paper 50, March 1982, for a discussion of the estimation methods. Technical papers 51, 52, 55, and 56 provide data for all years from 1979 through 1985.

means-tested transfer income such as aid to families with dependent children, supplemental security income, and general assistance. "Plus food and housing" adds to income all means-tested in-kind transfer received for food and housing. This would include food stamps, housing programs and school lunch programs. Benefits are valued using the *market value* method. "Less Federal taxes" subtracts from income Federal income and the employee portion of Federal payroll taxes.

Table 18 shows that before any governmental transfers, 50.5 million individuals would have been poor in 1985. With social insurance benefits, 35.2 million individuals are poor; a reduction of 15.3 million. Means-tested cash and in-kind transfers reduces the poverty count by an additional 5.7 million individuals.

In 1979, 22.4 percent of individuals were removed from poverty due to means-tested transfers and Federal tax policy. In 1983, this had declined to 8.1 percent. Beginning in 1984, the downward trend reversed itself and the percentage increased to 9.5 percent in 1985.

If governmental policy had remained as effective (in percentage terms) in removing individuals from poverty in 1985 as it had in 1979, some 4.5 million fewer individuals would be living in poverty. This is calculated as 35.2 million (the number poor before means-tested transfers) times 0.776 (the number remaining poor in 1979 after means-tested transfers and Federal tax policy) and comparing this result to the actual number of poor in 1985 after means-tested transfers and Federal tax policy.

Tables 19 and 20 illustrate similar trends for families with children. Table 20 shows that in 1979, approximately 33 percent of individuals in single parent families were removed from poverty as the result of means-tested transfers and Federal tax policy. By 1985, this had declined to 16 percent. Similarly, the percentage reduction in the poverty gap had declined from 65 percent to 58 percent. This percentage decline in the poverty gap implies a loss of income to these families of approximately $1.7 billion. If governmental policy had remained as effective (in percentage terms) in removing individuals in single parent families with children from poverty in 1985 as it had in 1979, some 2.3 million fewer individuals in single parent families would be living in poverty. The poverty rate in 1985 would be 31.2 percent instead of 39.6 percent after taking into account food and housing benefits and Federal taxes.

TABLE 18.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL FAMILIES AND INDIVIDUALS, 1979–85

	1979	1980	1981	1982	1983	1984	1985
Number of poor individuals (thousands):							
Before transfers	41,695	46,273	49,184	51,942	52,700	50,943	50,462
Plus social insurance (other than Social Security)	39,835	44,016	46,974	48,989	49,468	48,690	48,208
Plus Social Security	27,846	31,638	33,909	36,204	36,928	35,702	35,171
Plus means-tested cash transfers (official definition)	25,201	29,114	31,567	34,200	35,030	33,700	33,064
Plus food and housing benefits	20,931	24,882	27,703	30,493	31,697	30,103	29,489
Less Federal taxes	21,606	26,030	29,983	32,549	33,923	32,529	31,840
Number of individuals removed from poverty due to (thousands):							
Social insurance (other than Social Security)	1,860	2,257	2,210	2,953	3,232	2,253	2,254
Social insurance	13,849	14,635	15,275	15,738	15,772	15,241	15,291
Means-tested cash, food, and housing benefits	6,915	6,756	6,206	5,711	5,231	5,599	5,682
Added due to Federal taxes	675	1,148	2,280	2,056	2,226	2,426	2,351
Percent of individuals removed from poverty due to:							
Social insurance (including Social Security)	33.2	31.6	31.1	30.3	29.9	29.9	30.3
Means-tested cash, food and housing benefits and Federal taxes	22.4	17.7	11.6	10.1	8.1	8.9	9.5
Poverty gap (millions of 1985 dollars):							
Before transfers	94,970	105,707	111,979	117,024	120,015	116,034	115,854
Plus social insurance (other than Social Security)	88,535	97,951	104,626	108,668	110,446	108,857	109,319
Plus Social Security	49,136	55,308	60,389	64,856	67,651	65,393	64,667
Plus means-tested cash transfers (official definition)	34,077	39,224	44,307	48,573	50,414	47,990	47,809
Plus food and housing benefits	26,685	30,533	35,460	38,534	40,165	37,903	37,816
Less Federal taxes	27,113	31,202	36,684	39,890	41,660	39,538	39,400

TABLE 18.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL FAMILIES AND INDIVIDUALS, 1979–85—Continued

	1979	1980	1981	1982	1983	1984	1985
Percentage reduction in poverty gap due to:							
Social insurance (including Social Security)	48.3	47.7	46.1	44.6	43.6	43.6	44.2
Means-tested cash, food and housing benefits and Federal taxes	44.8	43.6	39.3	38.5	38.4	39.5	39.1
Poverty rate (in percent):							
Before transfers	19.1	20.6	21.7	22.6	22.8	21.8	21.3
Plus social insurance (other than Social Security)	18.3	19.6	20.7	21.4	21.4	20.8	20.4
Plus Social Security	12.8	14.1	14.9	15.8	15.9	15.3	14.9
Plus means-test cash transfers (official definition)	11.6	12.9	13.9	14.9	15.1	14.4	14.0
Plus food and housing benefits	9.6	11.1	12.2	13.3	13.7	12.9	12.5
Less Federal taxes	9.9	11.6	13.2	14.2	14.6	13.9	13.5

Source: Congressional Budget Office and committee staff.

TABLE 19.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL FAMILIES WITH RELATED CHILDREN LESS THAN 18, 1979–85

	1979	1980	1981	1982	1983	1984	1985
Number of poor individuals (thousands):							
Before transfers	21,510	24,795	26,446	28,759	28,935	27,277	26,639
Plus social insurance (other than Social Security)	20,559	23,518	25,204	26,895	26,948	26,010	25,368
Plus Social Security	18,599	21,544	23,111	25,036	25,255	24,408	23,701
Plus means-tested cash transfers (official definition)	16,808	19,902	21,553	23,796	24,246	23,301	22,547
Plus food and housing benefits	13,261	16,463	18,465	20,903	21,736	20,616	19,847
Less Federal taxes	13,638	17,370	20,159	22,503	23,420	22,405	21,586

Number of individuals removed from poverty due to (thousands):							
Social insurance (other than Social Security)	951	1,277	1,242	1,864	1,987	1,267	1,271
Social insurance (including Social Security)	2,911	3,251	3,335	3,723	3,680	2,869	2,938
Means-tested cash, food, and housing benefits	5,338	5,081	4,646	4,133	3,519	3,792	3,854
Added due to Federal taxes	377	807	1,694	1,600	1,684	1,789	1,739
Percent of individuals removed from poverty due to:							
Social insurance (including Social Security)	13.5	13.1	12.6	12.9	12.7	10.5	11.0
Means-tested cash, food and housing benefits and Federal taxes	26.7	19.8	12.8	10.1	7.3	8.2	8.9
Poverty gap (millions of 1985 dollars):							
Before transfers	35,967	41,785	44,249	48,743	49,992	46,989	45,989
Plus social insurance (other than Social Security)	33,907	38,723	41,299	45,085	45,791	44,234	43,651
Plus Social Security	28,891	33,570	35,857	39,995	40,871	39,532	38,699
Plus means-tested cash transfers (official definition)	18,572	22,299	24,732	28,540	28,992	27,787	27,118
Plus food and housing benefits	12,509	15,105	17,554	20,169	20,460	19,476	18,822
Less Federal taxes	12,503	15,239	18,059	20,791	21,170	20,265	19,520
Percentage reduction in poverty gap due to:							
Social insurance (including Social Security)	19.7	19.7	19.0	17.9	18.2	15.9	15.9
Means-tested cash, food and housing benefits and Federal taxes	56.7	54.6	49.6	48.0	48.2	48.7	49.6
Poverty rate (in percent):							
Before transfers	16.5	18.6	20.0	21.7	21.9	20.7	20.0
Plus social insurance (other than Social Security)	15.8	17.6	19.0	20.3	20.4	19.7	19.0
Plus Social Security	14.3	16.1	17.4	18.9	19.2	18.5	17.8
Plus means-tested cash transfers (official definition)	12.9	14.9	16.3	17.9	18.4	17.6	16.9
Plus food and housing benefits	10.2	12.3	13.9	15.7	16.5	15.6	14.9
Less Federal taxes	10.5	12.9	15.2	17.0	17.8	17.0	16.2

Source: Congressional Budget Office and Committee staff.

TABLE 20.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL UNITS WITH UNMARRIED HEAD AND RELATED CHILDREN LESS THAN 18, 1979–85

	1979	1980	1981	1982	1983	1984	1985
Number of poor individuals (thousands):							
Before transfers	11,480	12,458	12,915	13,594	13,751	13,774	13,685
Plus social insurance (other than Social Security)	11,271	12,207	12,689	13,284	13,501	13,513	13,391
Plus Social Security	10,367	11,201	11,858	12,579	12,611	12,786	12,581
Plus means-tested cash transfers (official definition)	9,230	10,362	10,987	11,903	12,063	12,132	11,943
Plus food and housing benefits	6,901	8,363	9,191	10,312	10,531	10,473	10,418
Less Federal taxes	6,925	8,433	9,423	10,611	10,800	10,695	10,670
Number of individuals removed from poverty due to (thousands):							
Social insurance (other than Social Security)	209	251	226	310	250	261	294
Social insurance (including Social Security)	1,113	1,257	1,057	1,015	1,140	988	1,104
Means-tested cash, food, and housing benefits	3,466	2,838	2,667	2,267	2,080	2,313	2,163
Added due to Federal taxes	24	70	232	299	269	222	252
Percent of individuals removed from poverty due to:							
Social insurance (including Social Security)	9.7	10.1	8.2	7.5	8.3	7.2	8.1
Means-tested cash, food and housing benefits and Federal taxes	33.2	24.7	20.5	15.6	14.4	16.4	15.2
Poverty gap (millions of 1985 dollars):							
Before transfers	23,138	25,568	26,850	28,841	29,851	29,057	29,096
Plus social insurance (other than Social Security)	22,486	24,672	26,092	27,904	28,752	28,116	28,244
Plus Social Security	19,843	21,792	23,352	25,190	25,913	25,615	25,372
Plus means-tested cash transfers (official definition)	11,378	13,056	14,631	16,393	17,025	16,650	16,633
Plus food and housing benefits	7,052	7,961	9,433	10,487	11,064	10,741	10,589
Less Federal taxes	7,001	7,940	9,478	10,567	11,134	10,835	10,667
Percentage reduction in poverty gap due to:							
Social insurance (including Social Security)	14.2	14.8	13.0	12.7	13.2	11.8	12.8
Means-tested cash, food and housing benefits and Federal taxes	64.7	63.6	59.4	58.1	57.0	57.7	58.0

Poverty rate (in percent):							
Before transfers	50.0	51.6	52.1	54.5	53.8	51.5	50.7
Plus social insurance (other than Social Security)	49.1	50.6	51.2	53.2	52.8	50.5	49.6
Plus Social Security	45.1	46.4	47.8	50.4	49.3	47.8	46.6
Plus means-tested cash transfers (official defintion)	40.2	43.0	44.3	47.7	47.2	45.3	44.3
Plus food and housing benefits	30.0	34.7	37.1	41.3	41.2	39.1	38.6
Less Federal taxes	30.1	35.0	38.0	42.5	42.2	40.0	39.6

Source: Congressional Budget Office and Committee staff.

Table 21 shows the effects of child support and alimony payments in reducing poverty. In 1985, receipt of income from these sources reduced the number of poor families by about 5 percent, and lowered the poverty gap by $3.2 billion, a drop of nearly 7 percent. The largest effect was on single-parent families with children; their poverty rate was reduced by 6 percent and their poverty gap declined by 8 percent.

TABLE 21.—NUMBER OF FAMILIES AND REDUCTION IN POVERTY GAP DUE TO RECEIPT OF CHILD SUPPORT AND/OR ALIMONY PAYMENTS

	All families	All families with children	Single parents with children	Other families with children
Reduction in poverty:				
Number of families (in thousands)	415	284	206	78
Poverty gap (in billions)	$3.2	$2.6	$2.0	$0.6
Poverty rate	0.6	0.9	2.8	0.3
Percentage reduction:				
Number of families	4.9	4.8	5.8	3.4
Poverty gap	6.6	6.8	7.9	4.6

Note.—The number 415 under the heading "All families," means that 415,000 families were removed from poverty as a result of receiving child support and/or alimony.

Source: Congressional Budget Office tabulations of the March 1986 Current Population Survey.

Labor Force Participation of Women [10]

TABLE 22.—LABOR FORCE PARTICIPATION RATES OF WOMEN BY AGE OF YOUNGEST CHILD, MARCH OF SELECTED YEARS, 1970–86

[percent]

Presence and age of child	Wives, husband present				Women maintaining families alone, 1986
	1970	1975	1980	1986	
Total	40.8	44.5	50.2	54.6	62.1
With children under 18 years	39.8	44.9	54.3	61.4	69.5
Under 6 years	30.3	36.3	45.3	53.9	57.9
Under 3 years	25.8	32.6	41.5	51.0	50.9
1 year and under	24.0	30.8	39.0	49.8	44.7
3–5 years	36.9	42.2	51.7	58.5	64.5
6–17 years	49.2	52.4	62.0	68.5	76.8
6–13 years	47.0	51.8	62.6	68.0	74.5

Source: Department of Labor, Bureau of Labor Statistics.

[10] This section borrows heavily from "How Much Are Working Mothers Working?" by Douglas J. Besharov and Michelle M. Dally in Public Opinion, November/December 1986.

The following table illustrates the percent of women who are working full-time (35 hours or more per week), working part-time, or actively seeking employment. For women with children, the percent in the labor force has increased from nearly 40 percent in 1970 to 61 percent in March, 1986.

However, these statistics must be interpreted with care. They mask significant differences among married mothers who work, divorced mothers and never-married mothers. Actually, 41 percent of mothers work full-time and 16 percent work part-time. Only 29 percent of married mothers with a spouse present work full-time for a full year. About 8 percent work 27 to 49 weeks a year.

PERCENT WORKING, MARCH 1986

	Children ages 0–17		Children ages 0–6	
	Full time	Part time	Full time	Part time
All mothers	41	16	33	15
Married spouse present	39	18	33	17
Divorced	63	11	50	14
Never married	29	8	23	8

Source: "How Much Are Working Mothers Working?"; Douglas J. Besharov and Michelle M. Dally; Public Opinion, November/December 1986.

Changes in Income Inequality [11]

Table 23 shows mean family income in constant 1984 dollars for 5 selected years for all families with children, and for subgroups defined by the number of parents in the household and the sex and race of the family head.

Changes in the mean indicate how the "typical" family fared, but they obscure the differing patterns of income changes that have occurred for families at different positions in the income distribution. Families with children are ranked by income and classified into one of five quintiles, and the percentage of income received by each of these fifths of families is computed. Changes in these income shares provide a useful indicator of changes in income inequality.

From table 24, we see that the extent of inequality is large in any year—in 1985, the poorest 20 percent of all families with children received 4.19 percent of aggregate income, while the richest 20 percent received more than 10 times that amount, 42.16 percent.

Second, the degree of inequality has increased substantially since 1967. Consider the ratio of the 1985 income share to the initial-year share shown for each of the four family types in table 24. A ratio less than 1.0 indicates that the quintile now has a smaller proportion of income; a ratio greater than 1.0, that the quintile now has a greater proportion. For all families with children, and for whites,

[11] This section borrows heavily from "How Have Families With Children Been Faring" a study prepared for the Joint Economic Committee of the Congress by Sheldon Danziger and Peter Gottschalk.

blacks and Hispanics, the pattern is identical—the highest-income families have gained and the lowest-income families have lost: in all cases except one, the bottom 60 percent lost, while the top 40 percent gained. The largest declines have been in the lowest quintile and the largest increases in the highest, but there were also large declines in the second, and increases in the fourth, quintile.

TABLE 23.—MEAN REAL INCOME OF FAMILIES WITH CHILDREN AND UNEMPLOYMENT RATES, SELECTED YEARS, 1967–85

[1984 dollars]

	1967	1973	1979	1984	1985	Percentage change [1]		
						1967–73	1973–85	1967–85
All families with children	$28,369	$32,206	$31,138	$29,527	$30,096	+13.5	−6.6	+6.1
White	29,697	33,859	32,826	31,298	31,835	+14.0	−6.0	+7.2
Black	17,790	20,708	20,150	18,504	19,470	+16.4	−6.0	+9.4
Hispanic	NA	23,280	23,778	21,663	21,022	NA	−9.7	NA
All two-parent families with children	30,139	35,493	35,383	34,379	35,032	+17.8	−1.3	+16.2
White	30,963	36,276	35,976	34,954	35,717	+17.2	−1.5	+15.4
Black	21,121	27,040	28,645	28,096	28,416	+28.0	+5.1	+34.5
Hispanic	NA	26,247	27,539	25,777	24,821	NA	−5.4	NA
All female-headed families with children	14,184	14,371	14,530	13,257	13,821	+1.3	−3.8	−2.6
White	15,836	15,853	16,016	14,611	15,061	+.1	−5.0	−4.9
Black	10,819	11,619	11,710	10,522	11,280	+7.4	−2.9	+4.3
Hispanic	NA	12,175	11,223	10,560	11,033	NA	−9.4	NA
Unemployment rate (percent)	3.8	4.9	5.8	7.5	7.2	+28.9	+46.9	+89.5

[1] Defined as 100 * (1984 mean − earlier-year mean)/earlier-year mean.

NA = Not available; the Census Bureau did not begin collecting annual data on persons of Hispanic origin in the Current Population Survey until 1972.

Source: Unless noted otherwise, all data are from computations from the March 1968, 1974, 1980, 1985, 1986 Current Population Surveys.

TABLE 24.—SHARE OF AGGREGATE INCOME RECEIVED BY EACH QUINTILE OF FAMILIES WITH CHILDREN, 1967–85

	Quintile share of income					Total
	1	2	3	4	5	
All families with children:						
1967	6.59	13.36	18.05	23.46	38.54	100.0
1973	5.78	12.84	18.00	24.09	38.28	100.0
1979	5.18	12.33	18.55	24.56	39.38	100.0
1984	4.16	11.17	17.50	25.04	42.13	100.0
1985	4.19	11.21	17.79	24.64	42.16	100.0
Ratio: 1985/1967 share	.64	.84	.96	1.05	1.09	1.00
White families with children:						
1967	7.32	13.71	18.04	23.09	37.84	100.0
1973	6.46	13.33	18.02	23.66	38.52	100.0
1979	5.88	12.93	18.46	24.50	38.24	100.0
1984	4.75	11.98	17.97	24.29	41.01	100.0
1985	4.73	11.73	18.19	24.01	41.34	100.0
Ratio: 1985/1967 share	.65	.86	1.01	1.04	1.09	1.00
Black families with children:						
1967	5.27	10.88	17.02	24.45	42.38	100.0
1973	4.84	10.39	16.56	25.06	43.16	100.0
1979	4.14	9.43	15.83	26.00	44.60	100.0
1984	3.50	8.25	15.12	25.18	47.96	100.0
1985	3.46	8.45	15.69	25.73	46.67	100.0
Ratio: 1985/1967 share	.66	.78	.92	1.05	1.10	1.00
Hispanic families with children:						
1967	NA	NA	NA	NA	NA	NA
1973	6.02	11.83	17.25	24.43	40.47	100.0
1979	4.83	10.83	17.07	24.76	45.51	100.0
1984	4.08	9.93	16.98	25.45	43.56	100.0
1985	4.36	9.73	16.76	24.95	44.20	100.0
Ratio: 1985/1973 share	.72	.82	.97	1.02	1.09	1.00

Note: Quintiles are defined separately for each of the four types of families shown for each year.

Table 25 combines the income share data from table 24 with the mean income data from table 23 and shows the mean income in constant 1984 dollars for each quintile, for each of four family types. The mean income in a quintile changes when its income share changes and when the amount to be shared (aggregate income) changes. For example, between 1967 and 1985, mean income for all families increased by 6.1 percent, but the share of the lowest quintile declined sufficiently to result in a 32.5 percent decline, from $9,347 to $6,305. Over the same period, the mean income of the highest quintile increased from $54,665 to $63,444 because its share of the growing mean increased. A typical family in the second quintile lost 11 percent ($18,950 to $16,869) while one in the fourth quintile gained 11.4 percent ($33,276 to $37,079). Thus, there were shifts in income not only from the poorest to the richest

families, but also from lower-middle-income to upper-middle-income families.

The mean income of all quintiles except the fifth quintile was lower in 1985 than in 1973, and inequality continued to increase. The percentage decline for all families ranged from 32.3 and 18.4 percent in the lowest two quintiles. The 1973–1985 experience of the three middle-income quintiles differed dramatically from their experience between 1967 and 1973, when their mean incomes grew by 9, 13, and 17 percent, respectively.

TABLE 25—MEAN INCOME OF FAMILIES WITH CHILDREN BY INCOME QUINTILE IN CONSTANT DOLLARS, 1967–85

[1984 dollars]

	Mean income of quintile					Mean of all families
	1	2	3	4	5	
All families with children:						
1967	$9,347	$18,950	$25,602	$33,276	$54,665	$28,369
1973	$9,308	$20,678	$28,988	$38,796	$63,258	$32,206
1979	$8,057	$19,179	$28,855	$38,203	$61,256	$31,138
1984	$6,142	$16,491	$25,836	$36,967	$62,198	$29,527
1985	$6,305	$16,869	$26,771	$37,079	$63,444	$30,096
Percentage change:						
1967–1985	−32.5	−11.0	+4.6	+11.4	+16.1	+6.1
1973–1985	−32.3	−18.4	−7.6	−4.4	+.3	−6.6
White families with children:						
1967	$10,870	$20,359	$26,789	$34,288	$56,191	$29,697
1973	$10,936	$22,567	$30,507	$40,055	$65,211	$33,859
1979	$9,651	$21,222	$30,299	$40,213	$62,764	$32,826
1984	$7,433	$18,748	$28,112	$38,012	$64,178	$31,298
1985	$7,529	$18,671	$28,954	$38,218	$65,802	$31,835
Percentage change:						
1967–1985	−30.7	−8.3	+8.1	+11.5	+17.1	+7.2
1973–1985	−31.2	−17.3	−5.1	−4.6	+1.9	−6.0
Black families with children:						
1967	$4,686	$9,674	$15,134	$21,740	$37,683	$17,790
1973	$5,011	$10,758	$17,146	$25,947	$44,687	$20,708
1979	$4,171	$9,501	$15,949	$26,195	$44,935	$20,150
1984	$3,238	$7,634	$13,989	$23,296	$44,371	$18,504
1985	$3,368	$8,226	$15,274	$25,049	$45,434	$19,470

Percentage change:						
1967–1985	−28.1	−15.0	+0.9	+15.2	+20.6	+9.4
1973–1985	−32.8	−23.5	−10.9	−3.5	+1.7	−6.0
Hispanic families with children:						
1967	NA	NA	NA	NA	NA	NA
1973	$7,007	$13,770	$20,079	$28,437	$47,107	$23,280
1979	$5,742	$12,876	$20,295	$29,437	$50,540	$23,778
1984	$4,419	$10,756	$18,392	$27,566	$47,181	$21,663
1985	$4,583	$10,227	$17,617	$26,225	$46,460	$21,022
Percentage change:						
1973 to 1985	−34.6	−25.7	−12.3	−7.8	−1.4	−9.7

Note.—Quintiles are defined separately for each of the four types of families shown for each year. Thus, a group with a higher mean income is likely to have a higher mean in every quintile.

NA = Not available.

Federal Tax Treatment of Families in Poverty

Legislation before 1986

In the last two decades, Congress has attempted to ensure that families in poverty do not pay Federal income taxes. These legislative efforts reflect the policy that in a progressive income tax system, a family's income tax liability should not begin until that family's income has exceeded the poverty threshold (as measured by the standards set by the U.S. Bureau of the Census). Tax bills enacted in 1969, 1975, 1977, and 1978 all reflect this Congressional policy.

Before 1975, the principal tools used to achieve the goal of eliminating the Federal income tax liability of families in poverty were the standard deduction (during the years 1978 to 1986, termed the zero bracket amount) and the personal exemption. The standard deduction is a statutorily set amount of income which the taxpayer may receive with no tax liability. The personal exemption is an additional deduction provided for the taxpayer, the taxpayer's spouse, and each dependent. The total tax benefit of the personal exemption is thus contingent on the number of persons in the taxpayer's family.

In 1975, the Congress enacted the earned income tax credit. The credit is refundable, thus reflecting two Congressional goals in its enactment: first, to remove poor families from the income tax rolls, and second, through its cash refund feature, to offset a portion of the social security payroll tax on the earnings of the working poor with families. The earned income tax credit is available only to households with dependents, and thus was explicitly designed to help low income families, rather than single individuals or married couples with no dependents. The earned income tax credit is described more fully in section 12.

Before 1985, none of these provisions were indexed to changes in the price level, and as a result, inflation eroded the value of these tax benefits to poor households. In part to correct the inflationary erosion of the value of the personal exemption and the standard deduction, Congress significantly reduced the taxes of the poor and enacted the earned income tax credit in 1975. However, because inflation continued to erode the value of these benefits, the income taxes of the poor commenced to increase again after that year. Tax cut bills enacted in 1976, 1977, and 1978 abated this trend, but did not halt it. In 1985, the personal exemption and standard deduction (then termed the zero bracket amount) became indexed for inflation, but by that year, despite the legislation of earlier years, the poor incurred positive tax liabilities at incomes as low, when measured in real terms, as the incomes in 1974 before the enactment of the EITC and other tax reductions in 1975. Furthermore, because the earned income credit was not indexed, the tax burdens of families in poverty were slated to rise, in the absence of offsetting legislation, throughout in the 1980's.

In short, the trend throughout the 1970's and until 1986, was that inflation gradually increased the tax burdens of the poor and lowered the income level at which a poor family first incurred income tax liability. Legislation enacted by Congress reversed or slowed this trend, but in the absence of indexing, inflation gradual-

ly reversed these legislative efforts. This trend can be measured in two ways: first, the degree to which the income at which a poor family begins to pay income taxes (termed the tax threshold, or alternatively, the tax entry point) exceeds or falls below that family's poverty threshold; and second, the actual amount of tax liability incurred by a family with income at the poverty line.

Table 26, shows for a married couple with two children in selected years since 1959, the income tax threshold, the poverty level, and the percentage gap between them. These figures show that generally, before 1974 a family of four incurred positive Federal income tax liability even though the family's income was significantly below the poverty line. In 1975, following the enactment of the earned income credit, a family of four incurred no positive tax liability until its income exceeded the poverty threshold by 22 percent. Over the next decade, this margin eroded until by 1984, a poor family of four incurred positive tax liability when its income was 17 percent *below* the poverty line.

Table 27 shows the income tax burden and payroll tax burden of households with incomes below the poverty line given different family sizes. This table shows that a family of four in 1978 had an income tax refund (through the earned income tax credit) of $134; this refund offset 33 percent of the family's payroll tax burden of $403. By 1986, this same family incurred a positive tax liability of $363. Combined income and payroll taxes represented 4 percent of this family's income in 1978; by 1986, combined income and payroll taxes consumed 10.4 percent of this family's income.

The Tax Reform Act of 1986

The Tax Reform Act of 1986 significantly altered the structure of taxes affecting the poor. As a result, families with children or other dependents will incur no Federal income tax liability in 1987 or thereafter, and a greatly reduced combined Federal income and payroll tax burden. Because the system as enacted is indexed to inflation, this result will not be eroded by future increases in the Consumer Price Index.

The Tax Reform Act greatly expanded the level of the personal exemption from its level of $1,080 in 1986, to $1,900 in 1987, $1,950 in 1988, $2,000 in 1989. The standard deduction was increased to $5,000 for a married couple filing jointly and $4,400 for an unmarried head of household effective 1988. The maximum value of the earned income credit was increased, and the credit was made available to a greater number of low income families. The personal exemption is indexed after 1989; the standard deduction after 1988, and the earned income tax credit is indexed immediately.

As a result of this legislation, in 1988 a married couple with two children (i.e., a family of four) will incur no positive income tax liability until income attains $15,116. This income exceeds the poverty level for a family of four in that year by 19.9 percent. In 1988, this same family will receive a net income tax refund (through the earned income tax credit) of $649; this offsets this family's payroll tax burden in that year of $909 by 71 percent.

TABLE 26.—RELATIONSHIP BETWEEN INCOME TAX THRESHOLD AND POVERTY LEVEL FOR A FAMILY OF FOUR, 1959–1989

Year	Income tax threshold	Poverty level	Percentage by which tax threshold falls below (exceeds) poverty level
1959	$2,667	$2,973	10.3
1960	2,667	3,022	11.7
1965	3,000	3,223	6.9
1966	3,000	3,317	9.6
1968	3,000	3,553	15.6
1969	3,000	3,743	19.9
1970	3,600	3,968	9.3
1971	3,750	4,137	9.4
1972	4,300	4,275	(0.6)
1973	4,300	4,540	5.3
1974	4,300	5,038	14.6
1975	6,692	5,500	(21.7)
1976	6,892	5,815	(18.5)
1977	7,533	6,191	(22.0)
1978	7,533	6,662	(13.1)
1979	8,626	7,412	(16.4)
1980	8,626	8,414	(2.5)
1981	8,634	9,287	7.0
1982	8,727	9,862	11.5
1983	8,783	10,178	13.7
1984	8,783	10,610	17.2
1986	9,575	[1] 11,200	[1] 17.0
1987	[1] 13,288	[1] 11,606	[1] (12.7)
1988	[1] 15,116	[1] 12,104	[1] (19.9)
1989	[1] 15,675	[1] 12,663	[1] (19.4)

[1] Estimated.

Note: Tax thresholds assume full use of the earned income tax credit. They are based on the schedule for a married couple filing jointly, and do not assume eligibility for elderly exemption.

TABLE 27.—TAX THRESHOLDS, POVERTY LEVELS, AND FEDERAL TAX AMOUNTS FOR DIFFERENT FAMILY SIZES WITH EARNINGS EQUAL TO THE POVERTY LEVEL, 1978–1989

	Family size					
	1	2	3	4	5	6
Poverty level:						
1978	3,311	4,249	5,201	6,662	7,880	8,891
1982	4,900	6,280	7,690	9,860	11,680	13,210
1983	5,061	6,483	7,938	10,178	12,049	13,630
1984	5,277	6,759	8,276	10,612	12,562	14,211
1986 [1]	5,574	7,133	8,738	11,200	13,257	14,979
1987 [3]	5,776	7,392	9,055	11,606	13,738	15,552
1988 [3]	6,024	7,709	9,443	12,104	14,327	16,188
1989 [3]	6,287	8,046	9,856	12,633	14,953	16,895

TABLE 27.—TAX THRESHOLDS, POVERTY LEVELS, AND FEDERAL TAX AMOUNTS FOR DIFFERENT FAMILY SIZES WITH EARNINGS EQUAL TO THE POVERTY LEVEL, 1978–1989—Continued

	Family size					
	1	2	3	4	5	6
Income tax threshold:						
1978	$3,200	$5,200	$6,930	$7,520	$8,183	$9,167
1982	3,300	5,400	8,237	8,727	9,216	9,706
1983–84	3,300	5,400	8,315	8,783	9,251	9,719
1986	3,560	5,830	9,063	9,573	10,086	10,598
1987	4,440	7,560	12,292	13,288	14,283	15,278
1988 [3]	4,950	8,900	13,946	15,116	16,286	17,456
1989 [3]	5,100	9,200	14,475	15,675	16,875	18,075
Income tax at poverty level:						
1978	16	0	−280	−134	−12	0
1982	202	106	−134	285	417	491
1983	209	118	−89	319	432	509
1984	226	149	−9	364	478	569
1986	230	143	−75	363	480	563
1987 [3]	147	0	−635	−353	−115	−51
1988 [3]	161	0	−875	−649	−426	−240
1989 [3]	178	0	−913	−676	−444	−249
Payroll tax at poverty level:						
1978	200	257	315	403	477	538
1982	328	421	515	661	783	885
1983	339	435	532	682	808	913
1984 [2]	354	453	555	711	842	953
1986	399	510	625	801	948	1,071
1987 [3]	413	528	647	830	982	1,110
1988 [3]	452	579	709	909	1,076	1,216
1989 [3]	472	604	740	949	1,123	1,269
Combined income and payroll tax at poverty level:						
1978	216	257	35	269	465	538
1982	530	527	381	946	1,200	1,376
1983	546	554	443	1,001	1,240	1,422
1984	580	602	546	1,075	1,320	1,521
1986	628	653	549	1,163	1,428	1,634
1987 [3]	560	528	12	477	868	1,161
1988 [3]	613	579	−166	260	650	976
1989 [3]	650	604	−173	273	679	1,020
Combined tax as percent of income at poverty level:						
1978	6.5	6.1	0.7	4.0	5.9	6.1
1982	10.8	8.4	5.0	9.6	10.3	10.4
1983	10.8	8.6	5.6	9.8	10.3	10.4
1984	11.0	8.9	6.5	10.1	10.5	10.7
1986	11.3	9.2	6.3	10.4	10.8	10.9
1987 [3]	9.7	7.2	.1	4.1	6.3	7.5
1988 [3]	10.2	7.5	−1.8	2.2	4.5	6.0

TABLE 27.—TAX THRESHOLDS, POVERTY LEVELS, AND FEDERAL TAX AMOUNTS FOR DIFFERENT FAMILY SIZES WITH EARNINGS EQUAL TO THE POVERTY LEVEL, 1978–1989—Continued

	Family size					
	1	2	3	4	5	6
1989 [3]	10.3	7.5	−1.8	2.2	4.5	6.0

[1] Estimated.
[2] Effective payroll tax calculated as 6.7 percent for 1984 because in this year employees are allowed a payroll tax credit equal to 0.3 percent of taxable wages.
[3] Projection.

Note: The table reflects assumptions that all family income consists of wages or salaries, that families of two or more incude a married couple (rather than an unmarried head of household with one or more dependents), that all family members are under age 65, and that families of three or more persons are eligible for the earned income credit. For families of three or more, the effect of the earned income credit is included. Negative figures in the table reflect refundability of earned income credit.

Combined Impact of AFDC, Food Stamps, and Federal Tax Policy Upon Female-Headed Families: 1960 to 1988

This section briefly examines the combined impact of AFDC, food stamps and Federal tax policy upon female-headed families by State. The analysis calculates AFDC, food stamps, and Federal taxes (income plus payroll) for single parents with two or three children with different earnings in each State (except Alaska and Hawaii). To make comparisons across time, wages are expressed as a given percentage (0, 50, 75, 100, or 125) of the poverty thresholds. At the conclusion of this section is a complete description of the methodology.

Table 28 presents the combined AFDC and food stamp benefit level for a family of four with no income from 1960 to 1986 (in constant 1986 dollars). Over the entire 26-year period, the weighted average of total benefits (weighted across States by the 1980 State population) grew only 6.4 percent, from $7,066 in 1960 to $7,519 in 1986. While AFDC benefits declined slightly from 1960 to 1964 (a 1.6 percent decline), AFDC grew 8 percent in real terms from 1964 to 1968. Between 1968 and 1986, AFDC benefits declined by 30 percent in real terms. However, on average with the availability of food stamps, total benefits increased from 1964 to 1972, declined slightly from 1972 to 1976, dropped significantly from 1976 to 1980 (14.4 percent) and lost another 5 percent between 1980 and 1986.

Creation of the food stamp program in the late 1960's produced an increase in benefits in some States, especially in the south. The benefit level in several States (Alabama, Arkansas, Delaware, Florida, Maine, Mississippi, South Carolina) increased by over 50 percent from 1960 to 1986. In 18 States, total benefits (AFDC only in 1960 and food stamps plus AFDC in 1986) declined from 1960 to 1986. In 11 of these States (Idaho, Illinois, Massachusetts, Montana, New Jersey, New Mexico, North and South Dakota, Ohio, Washington and Wyoming), the decline was over 10 percent. Since 1972,

AFDC and food stamp benefit levels for a family of four with no income has declined by about 20 percent on average.

Table 29 shows average disposable income of a mother and three children (without day care) between 1972 and 1986 with wages equal to between 0 and 125 percent of the poverty level. Also included in this table are projections for 1988. As discussed below in the methodology section, these projections show disposable income, given the changes in the Tax Reform Act of 1986. It shows that families earning 50 percent of the poverty level experienced a 23.6 percent decline in disposable income between 1972 and 1986. The decline for families earning 75 percent of the poverty level was 25.0 percent. The decline in disposable income is in part due to the loss of AFDC as an income supplement to wages. In 1972, all States paid AFDC benefits to a family with wages equal to 50 percent of the poverty threshold; by 1986 32 States paid AFDC to such a family.

The significant increases in disposable income for 1988, particularly with wages at 75 percent of poverty or more, are due to the Tax Reform Act of 1986. For example, the Federal tax burden has been reduced by over $1,000 for a mother with three children and poverty level earnings ($11,165) (see table 30).

Tables 31–32 are analogous tables for a mother with two children. Tables 33 and 34 illustrate disposable income for the same family with day care expenses. Table 31 shows that mothers with earnings nearly equal to full-time at the minimum wage ($6,533) have had significant reductions in disposable income from 1976 to 1986; nearly 24 percent. In 1976, for this family in almost all States when AFDC and food stamps were added to wages, the family had disposable income above poverty. In 1986, this happened in only 11 States. Average tax rates on earnings increased by nearly 40 percent between 1976 and 1986 at $6,500 of wages.

The significant feature of table 33 is the percentage of day care reimbursed by the combination of AFDC, food stamp and Federal tax policies. This assumes that day care was not directly reimbursed by title XX or a similar program but that the day care expenses were taken into account when computing AFDC and food stamp benefits and Federal tax liability. For a mother with earnings at 75 percent of poverty ($6,533 in 1986); these policies combined to reimburse 95 percent of day care expenses in 1976. By 1984, the percentage reimbursed had fallen to 46 percent primarily because the number of States supplementing wages with AFDC had fallen from 49 to 11. Correspondingly, in 1986, the percentage reimbursed had increased to 68 percent.

The averages in tables 29–34 are weighted across States by the 1980 State population. The maximum number of States is 49 since Alaska and Hawaii have been excluded from the analysis.

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TABLE 28.—COMBINED AFDC AND FOOD STAMP BENEFIT LEVELS FOR A FAMILY OF FOUR WITH NO INCOME

[1986 constant dollars]

	1960	1964	1968	1972	1976	1980	1984	1985	1986	Percent change	
										1960 to 1986	1972 to 1986
Alabama	2,438	2,843	3,356	6,296	6,590	5,551	5,052	5,011	4,980	104.2	−20.9
Arizona	5,941	5,665	5,053	8,190	7,596	6,621	6,262	6,218	6,799	14.4	−17.0
Arkansas	2,926	3,002	3,394	6,603	6,670	5,997	5,458	5,723	5,715	95.3	−13.5
California	9,531	9,089	8,333	10,311	10,525	10,177	9,604	9,768	9,999	4.9	−3.0
Colorado	7,226	5,988	6,976	9,477	8,864	7,814	7,482	7,396	7,361	1.9	−22.3
Connecticut	9,753	9,723	11,576	11,583	10,944	9,218	9,391	9,478	9,613	−1.4	−17.0
Delaware	4,389	6,299	7,051	7,503	9,041	7,379	6,739	6,679	6,765	54.1	−9.8
District of Columbia	7,359	7,018	6,938	9,412	9,477	7,791	7,005	7,217	7,420	0.8	−21.2
Florida	3,458	3,298	3,205	7,327	7,154	6,465	6,182	6,235	6,337	83.2	−13.5
Georgia	4,832	4,608	4,713	7,437	6,799	6,053	5,935	6,064	6,370	31.8	−14.3
Idaho	9,265	8,502	8,974	10,355	9,960	7,992	6,810	6,747	6,723	−27.4	−35.1
Illinois	8,556	7,921	10,520	10,135	9,525	7,802	7,022	7,097	7,067	−17.4	−30.3
Indiana	4,877	4,650	5,656	8,666	8,444	7,412	6,563	6,508	6,488	33.0	−25.1
Iowa	7,670	8,044	9,200	9,499	10,154	8,572	7,473	7,387	7,555	−1.5	−20.5
Kansas	8,113	7,825	8,937	11,232	10,283	8,248	7,500	7,618	7,714	−4.9	−31.3
Kentucky	5,586	5,777	7,051	7,920	8,202	6,521	5,944	5,911	5,900	5.6	−25.5
Louisiana	4,788	4,566	4,374	6,538	6,961	6,275	5,838	5,808	5,799	21.1	−11.3
Maine	4,877	5,242	5,166	7,854	8,896	7,825	7,734	7,777	7,938	62.8	1.1
Maryland	6,694	7,081	6,712	8,556	8,315	7,535	7,282	7,435	7,568	13.1	−11.5
Massachusetts	9,709	9,351	10,860	11,825	10,622	8,572	7,862	8,121	8,504	−12.4	−28.1

Michigan (Wayne)	6,207	6,764	9,276	12,088	10,912	9,486	7,668	7,976	8,134	31.1	−32.7
Minnesota	8,955	8,551	10,030	11,605	10,622	9,318	9,170	9,069	9,008	0.6	−22.4
Mississippi	2,217	2,114	2,074	5,391	5,207	5,239	4,711	4,682	4,944	123.0	−8.3
Missouri	4,877	4,650	4,676	7,020	7,154	7,134	6,492	6,542	6,580	34.9	−6.3
Montana	9,044	9,163	8,446	8,688	8,477	7,591	7,526	7,447	7,412	−18.0	−14.7
Nebraska	5,763	5,496	7,541	9,126	9,154	8,025	7,482	7,396	7,361	27.7	−19.3
Nevada	4,699	5,073	5,958	8,029	8,428	7,401	6,174	6,722	6,698	42.5	−16.6
New Hampshire	7,891	7,736	9,578	10,618	9,993	8,271	7,562	7,584	7,622	−3.4	−28.2
New Jersey	10,241	10,391	12,519	11,276	10,154	8,516	7,685	7,780	7,739	−24.4	−31.4
New Mexico	8,246	7,851	6,900	8,087	7,727	6,877	6,536	6,483	6,463	−21.6	−20.1
New York (NYC)	10,063	10,808	10,483	11,035	11,218	9,207	8.919	8,893	9,087	−9.7	−17.7
North Carolina	5,896	6,437	5,430	7,656	7,638	6,242	5,723	6,107	6,093	3.3	−20.4
North Dakota	9,044	9,850	9,464	10,750	10,380	8,449	7,632	7,686	7,647	−15.4	−28.9
Ohio	8,157	6,024	7,277	8,556	8,509	7,546	6,801	6,884	6,975	−14.5	−18.5
Oklahoma	6,872	6,891	6,599	8,315	8,993	7,791	6,854	6,790	7,059	2.7	−15.1
Oregon	8,689	7,831	8,522	10,026	11,396	8,817	8,163	8,241	8,311	−4.4	−17.1
Pennsylavnia	6,561	6,908	8,032	11,035	10,428	8,148	7,438	7,601	7,748	18.1	−29.8
Rhode Island	7,271	7,083	10,030	9,938	10,202	8,237	7,731	7,866	8,127	11.8	−18.2
South Carolina	2,793	3.044	3,507	6,450	6,299	5,662	5,590	5,766	5,849	109.4	−9.3
South Dakota	8,157	7,627	8,635	10,421	9,783	7,925	7,049	6,978	7,261	−11.0	−30.3

TABLE 28.—COMBINED AFDC AND FOOD STAMP BENEFIT LEVELS FOR A FAMILY OF FOUR WITH NO INCOME—Continued

[1986 constant dollars]

	1960	1964	1968	1972	1976	1980	1984	1985	1986	Percent change	
										1960 to 1986	1972 to 1986
Tennessee	3,547	4,228	4,525	7,064	6,541	5,551	5,254	5,399	5,421	52.9	−23.3
Texas	3,901	4,143	4,299	7,415	6,670	5,462	5,343	5,527	5,690	45.8	−23.3
Utah	7,492	7,441	6,979	9,324	9,783	8,683	7,526	7,558	7,521	0.4	−19.3
Vermont	6,207	5,919	9,389	11,518	10,525	10,054	9,268	9,367	9,226	48.7	−19.9
Virginia	6,561	6,870	7,202	9,894	9,428	7,301	7,120	7,310	7,277	10.9	−26.4
Washington	10,551	8,865	10.105	10,618	10,622	9,876	8,876	8,742	8,890	−15.7	−16.3
West Virginia	4,877	5,173	6,071	7,371	8,428	6,677	5,970	6,474	6,454	32.4	−12.4
Wisconsin	10,019	9,544	9,012	10,794	11,251	9,798	9,391	9,239	9,285	−7.3	−14.0
Wyoming	8,645	8,455	7,541	9,148	8,767	7,691	7,217	7,140	7,109	−17.8	−22.3
Average	6,764	6,682	7,309	9,101	8,974	7,690	7,102	7,172	7,257	7.3	−20.3
Weighted average	7,066	6,949	7,501	9,359	9,133	7,877	7,314	7,406	7,519	6.4	−19.7
AFDC-weighted average	7,066	6,949	7,501	7,417	6,746	5,680	5,033	.....	5,223	−26.1	−29.6

Note: For 1960, 1964, and 1968 this is only AFDC benefits. While some families may have received food stamps, the program was only operational in one-third of the counties. Only 2.2. million individuals participated in the food stamp program during fiscal year 1968.

TABLE 29.—COMPARISON OF THE AVERAGE AMOUNT OF DISPOSABLE INCOME AMONG STATES FOR A MOTHER WITH THREE CHILDREN WITHOUT DAY CARE EXPENSES AND WITH DIFFERENT WAGE AMOUNTS: 1972, 1976, 1980, 1984, 1986, AND 1988 PROJECTED

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
1986 dollar equivalent	0	5,583	8,374	11,165	13,956
Average disposable income:					
1972 (1986 dollar equivalent)	9,359	12,109	13,212	14,256	15,400
1976 (1986 dollar equivalent)	9,133	12,042	13,098	13,756	14,551
1980 (1986 dollar equivalent)	7,877	10,623	11,734	12,302	13,157
1984 (1986 dollar equivalent)	7,314	8,698	9,660	10,915	12,088
1986	7,519	9,248	9,913	11,019	12,546
1988P (1986 dollar equivalent)	7,478	9,346	10,459	11,980	13,221
Percentage change:					
1972–1986	−19.7	−23.6	−25.0	−22.7	−18.5
1980–1986	−4.5	−12.9	−15.5	−10.4	−4.6
1980–1988P	−5.1	−12.0	−10.9	−2.6	.5
Number of States which supplement wages with AFDC:					
1972	NA	49	47	42	35
1976	NA	49	46	38	26
1980	NA	46	36	27	13
1984	NA	21	5	0	0
1986	NA	32	8	0	0
1988P	NA	32	8	0	0
Number of States with disposable income above poverty:					
1972	7	28	41	49	49
1976	3	35	45	49	49
1980	0	13	31	49	49
1984	0	0	0	0	49
1986	0	1	0	0	49
1988P	0	1	1	49	49
Average tax rate (in percent):					
1972	NA	51	54	56	57
1976	NA	48	53	59	61
1980	NA	51	54	60	62
1984	NA	75	72	68	66
1986	NA	69	71	69	64
1988P	NA	67	64	60	59

NA: Not applicable.
P: Projected.

Note: Weighted average across States. Disposable income is wages plus AFDC plus food stamps less Federal taxes.

TABLE 30.—COMPOSITION OF TOTAL INCOME FOR A MOTHER WITH THREE CHILDREN WITHOUT DAY CARE EXPENSES AND WITH DIFFERENT WAGE AMOUNTS: 1972, 1980, 1984, 1986, AND 1988 PROJECTED

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
1972 (in 1986 dollars):					
Wages	0	5,583	8,374	11,165	13,956
AFDC	7,417	5,597	4,239	2,810	1,793
Food stamps	1,942	1,219	1,035	861	753
Federal taxes	0	−290	−436	−580	−1,102
Total Income	9,359	12,109	13,212	14,256	15,400
1980 (in 1986 dollars):					
Wages	0	5,583	8,374	11,165	13,956
AFDC	5,680	3,233	1,960	1,079	512
Food stamps	2,197	1,591	1,303	873	385
Federal taxes	0	216	97	−815	−1,696
Total Income	7,877	10,623	11,734	12,302	13,157
1984 (in 1986 dollars):					
Wages	0	5,583	8,374	11,165	13,956
AFDC	5,033	788	88	0	0
Food stamps	2,281	2,174	1,682	1,022	0
Federal taxes	0	153	−484	−1,272	−1,868
Total Income	7,314	8,698	9,660	10,915	12,088
1986:					
Wages	0	5,583	8,374	11,165	13,956
AFDC	5,223	1,413	238	0	0
Food stamps	2,296	2,101	1,752	1,153	484
Federal taxes	0	151	−451	−1,299	−1,894
Total Income	7,519	9,248	9,913	11,019	12,546
1988P (in 1986 dollars):					
Wages	0	5,583	8,374	11,165	13,956
AFDC	5,322	*ERR971,410	269	0	0
Food stamps	2,156	1,991	1,632	1,044	374
Federal taxes	0	362	184	−229	−1,109
Total Income	7,478	9,346	10,459	11,980	13,221

P: Projected.

Note: Weighted average across States. If taxes are positive, this means earned income tax credit. A minus sign coincides with the normal definition of taxes. Federal taxes include both income and payroll taxes.

TABLE 31.—COMPARISON OF THE AVERAGE AMOUNT OF DISPOSABLE INCOME AMONG STATES FOR A MOTHER WITH TWO CHILDREN WITHOUT DAY CARE EXPENSES AND WITH DIFFERENT WAGE AMOUNTS: 1976, 1980, 1984, 1986, AND 1988 PROJECTED

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
1986 dollar equivalent	0	4,355	6,533	8,710	10,888
Average disposable income:					
1976 (1986 dollar equivalent)	7,588	9,966	10,998	11,818	12,426
1980 (1986 dollar equivalent)	6,533	8,721	9,784	10,460	11,026
1984 (1986 dollar equivalent)	6,062	7,179	8,069	8,945	9,934
1986 (1986 dollar equivalent)	6,242	7,747	8,413	9,092	10,049
1988P (1986 dollar equivalent)	6,203	7,761	8,639	9,841	10,945
Percentage change:					
1976 to 1986	−17.7	−22.3	−23.5	−23.1	−19.1
1980 to 1986	−4.5	−11.2	−14.0	−13.1	−8.9
1980 to 1988P	−5.1	−11.0	−11.7	−5.9	−0.7
Disposable income as a percentage of poverty thresholds:					
1976	87.1	114.4	126.3	135.7	142.7
1980	75.0	100.1	112.3	120.1	126.6
1984	69.6	82.4	92.6	102.7	114.1
1986	71.7	88.9	96.6	104.4	115.4
1988P	71.2	89.1	99.2	113.0	125.7
Number of States which supplement wages with AFDC:					
1976	NA	49	47	44	33
1980	NA	47	42	33	20
1984	NA	25	7	1	0
1986	NA	38	11	1	0
1988P	NA	40	12	2	0
Number of States with disposable income above poverty:					
1976	11	40	49	49	49
1980	0	21	36	49	49
1984	0	2	1	49	49
1986	0	7	8	49	49
1988P	0	5	10	49	49
Average tax rate (in percent):					
1976	NA	45	48	51	56
1980	NA	50	50	55	59
1984	NA	74	69	67	64
1986	NA	65	67	67	65
1988P	NA	64	63	58	56

NA: Not applicable.
P: Projected.

Note: Weighted average across States. Disposable income is wages plus AFDC plus food stamps less Federal taxes.

TABLE 32.—COMPARISON OF THE TOTAL INCOME FOR A MOTHER WITH TWO CHILDREN WITHOUT DAY CARE EXPENSES AND WITH DIFFERENT WAGE AMOUNTS: 1976, 1980, 1984, 1986, AND 1988 PROJECTED

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
1976 (in 1986 dollars):					
Wages	0	4,355	6,533	8,710	10,888
AFDC	5,731	4,184	3,157	2,108	1,365
Food stamps	1,857	1,247	1,037	847	649
Federal taxes	0	180	271	153	−476
Total Income	7,588	9,966	10,998	11,818	12,426
1980 (in 1986 dollars):					
Wages	0	4,355	6,533	8,710	10,888
AFDC	4,765	2,917	1,952	1,211	664
Food stamps	1,768	1,281	1,047	738	405
Federal taxes	0	168	252	−199	−931
Total Income	6,533	8,721	9,784	10,460	11,026
1984 (in 1986 dollars):					
Wages	0	4,355	6,533	8,710	10,888
AFDC	4,230	928	143	2	0
Food stamps	1,832	1,752	1,437	944	408
Federal taxes	0	144	−44	−711	−1,362
Total Income	6,062	7,179	8,069	8,945	9,934
1986:					
Wages	0	4,355	6,533	8,710	10,888
AFDC	4,388	1,562	417	3	0
Food stamps	1,854	1,662	1,473	1,058	535
Federal taxes	0	168	−10	−679	−1,374
Total Income	6,242	7,747	8,413	9,092	10,049
1988P (in 1986 dollars):					
Wages	0	4,355	6,533	8,710	10,888
AFDC	4,469	1,555	409	14	0
Food stamps	1,734	1,568	1,375	958	440
Federal taxes	0	283	322	159	−383
Total Income	6,203	7,761	8,639	9,841	10,945

P: Projected.

Note: Weighted average across States. If taxes are positive, this means earned income tax credit. A minus sign coincides with the normal definition of taxes. Federal taxes includes both income and payroll taxes.

TABLE 33.—COMPARISON OF THE AVERAGE AMOUNT OF DISPOSABLE INCOME AS A PERCENTAGE OF THE POVERTY THRESHOLD AMONG STATES FOR A MOTHER WITH TWO CHILDREN WITH DAY CARE EXPENSES AND WITH DIFFERENT WAGE AMOUNTS: 1976, 1980, 1984, 1986, AND 1988 PROJECTED

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
1986 dollar equivalent	0	4,355	6,533	8,710	10,888
Average disposable income:					
1976 (1986 dollar equivalent)	7,588	9,900	10,928	11,644	12,183
1980 (1986 dollar equivalent)	6,533	8,666	9,500	10,054	10,519
1984 (1986 dollar equivalent)	6,062	6,951	7,363	8,004	9,039
1986 (1986 dollar equivalent)	6,242	7,643	7,991	8,461	9,396
1988P (1986 dollar equivalent)	6,203	7,666	8,126	8,876	10,032
Percentage change:					
1976–1986	−17.7	−22.8	−26.9	−27.3	−22.9
1976–1986	−4.5	−11.8	−15.9	−15.8	−10.7
1980–1988P	−5.1	−11.5	−14.5	−11.7	−4.6
Number of States which supplement wages with AFDC:					
1976	NA	49	49	48	45
1980	NA	49	49	44	34
1984	NA	36	11	6	1
1986	NA	44	30	7	1
1988P	NA	45	28	8	0
Number of States with disposable income above poverty:					
1976	11	37	46	49	49
1980	0	21	35	42	49
1984	0	1	0	1	49
1986	0	7	8	5	49
1988P	0	5	10	49	49
Average tax rate (in percent):					
1976	NA	47	49	53	58
1980	NA	51	55	60	63
1984	NA	80	80	78	73
1986	NA	68	73	75	71
1988P	NA	66	71	69	65
Percentage of childcare reimbursed:					
1976	NA	92	95	89	85
1980	NA	94	78	75	68
1984	NA	74	46	41	44
1986	NA	88	68	60	59
1988P	NA	89	61	39	43

NA: Not applicable.
P: Projected.

Note: Weighted average across States. Disposable income is wages plus AFDC plus food stamps less day care expenses less Federal taxes.

TABLE 34.—COMPARISON OF THE TOTAL INCOME FOR A MOTHER WITH TWO CHILDREN WITH DAY CARE EXPENSES AND WITH DIFFERENT WAGE AMOUNTS: 1976, 1980, 1984, 1986, AND 1988 PROJECTED

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
1976 (in 1986 dollars):					
Wages	0	4,355	6,533	8,710	10,888
AFDC	5,731	4,961	4,364	3,455	2,326
Food stamps	1,857	1,275	1,066	921	754
Day care	0	−871	−1,306	−1,595	−1,595
Federal taxes	0	180	271	153	−190
Total Income	7,588	9,900	10,928	11,644	12,183
1980 (in 1986 dollars):					
Wages	0	4,355	6,533	8,710	10,888
AFDC	4,765	3,776	3,119	2,236	1,408
Food stamps	1,768	1,238	902	667	431
Day care	0	−871	−1,306	−1,595	−1,595
Federal taxes	0	168	252	36	−613
Total Income	6,533	8,666	9,500	10,054	10,519
1984 (in 1986 dollars):					
Wages	0	4,355	6,533	8,710	10,888
AFDC	4,230	1,501	497	92	1
Food stamps	1,832	1,822	1,578	1,155	645
Day care	0	−871	−1,306	−1,595	−1,595
Federal taxes	0	144	61	−358	−900
Total Income	6,062	6,951	7,363	8,004	9,039
1986:					
Wages	0	4,355	6,533	8,710	10,888
AFDC	4,388	2,284	987	216	1
Food stamps	1,854	1,707	1,698	1,473	1,014
Day care	0	−871	−1,306	−1,595	−1,595
Federal taxes	0	168	79	−343	−912
Total Income	6,242	7,643	7,991	8,461	9,396
1988P (in 1986 dollars):					
Wages	0	4,355	6,533	8,710	10,888
AFDC	4,469	2,291	971	230	0
Food stamps	1,734	1,608	1,606	1,372	918
Day care	0	−871	−1,306	−1,595	−1,595
Federal taxes	0	283	322	159	−179
Total Income	6,203	7,666	8,126	8,876	10,032

P: Projected.

Note: Weighted average across States. If taxes are positive, this means earned income tax credit. A minus sign coincides with the normal definition of taxes. Federal taxes includes both income and payroll taxes.

Study Methodology

AFDC

Each State's AFDC program was modeled using the appropriate need standard, payment standard, percentage of deficit paid (usually 100 percent), and maximum benefit for July of each year from 1972 to 1986 for families of four and from 1976 to 1986 for families of three. Data does not exist for three-member families prior to 1976.

The AFDC benefit listed in table 28 for 1960 is the January 1961 benefit amount to which was applied the State maximum AFDC payment amounts in effect for September 1960. Data for 1964 are the January 1965 benefit. All of the AFDC benefit amounts are from a series of HEW publications entitled: "State Maximums and Other Methods of Limiting Money Payments to Recipients Under the Special Types of Public Assistance," September 1960 and October 1968; or "Monthly Cost Standards Used by States for Specified Types of Old Age Assistance Cases and Families Receiving Aid to Families with Dependent Children," January 1961 and January 1965.

The benefit level for 1968 is for the month of April. Data for 1972 to 1986 were provided by the Congressional Research Service. The earlier year data (1960 to 1968) are of lower quality than from 1972 on. However, the general trends noted in table 28 for 1960 to 1968 are correct.

In 1985 and 1986, monthly work expenses total $105. In 1984, the work expense disregard is $75 per month; also, the benefit is calculated in the fifth month of eligibility, after the termination of the earned income disregards because the majority of female heads with wages are not in their first 4 months of employment. For the years 1972, 1976, and 1980, monthly work expenses of 10 percent of gross wages to a maximum of $23, $31, and $45 are assumed, respectively. The earned income disregards are applied in 1980 according to the rules in effect prior to enactment of the Omnibus Budget Reconciliation Act (OBRA).

Work expense disregards are not affected by familiy size.

Food stamps

Given the wages and AFDC benefits, the food stamp benefit is calculated using the July 1972, 1976, 1980, 1984, 1985, and 1986 food stamp parameters, given family size. (see table 35).

Earned income tax credit

The EITC in 1985 and 1986 applies to AFDC families with adjusted gross income (AGI) and earned income below $11,000 annually. The credit equals 11 percent of the first $5,000 in earnings, for a maximum credit of $550 per family. The maximum allowable credit is phased down at 12.22 percent if the individual's AGI (or, if greater, earned income) exceeds $6,500.

For 1980 and 1984, the credit equals 10 percent of the first $5,000 in earnings; it may not exceed $500 per family. In addition, EITC is phased out at a 12.5 percent rate for earnings above $6,000; and only applies to families with AGI and earned income below $10,000 annually. The EITC is counted as earnings for AFDC purposes only

in 1984. For 1972, the credit is not applicable, and for 1976 the credit equals 10 percent of the first $4,000 of wages where is phased out at a 10 percent rate between earnings of $4,000 and $8,000.

The size of the credit is not affected by family size.

Federal income taxes

These are calculated using the head of household tax rates with a standard deduction and exemptions equal to the number of family members.

Federal payroll taxes

Only FICA is included. The tax rate percentage is 5.20, 5.85, 6.13, 6.70, 7.05, and 7.15 of wages in 1972, 1976, 1980, 1984, 1985, and 1986, respectively.

Day care expenses

These are assumed to be 20 percent of wages up to a maximum of $100 per month (1979 dollars). This was the average deduction in AFDC for those families with child care expenses. This maximum was then inflated or deflated to the appropriate year using the Consumer Price Index.

Additional comments

This methodology did not incorporate any other sources of income or expenses although it is possible that these families could have other income sources. The value of health care benefits—in the form of Medicaid or private health insurance—has not been included. A low-income energy assistance grant also was not assumed. However, several States beginning in 1984 (Maryland, New York, Oregon, Rhode Island, and Washington) have designated a portion of their AFDC grant as energy assistance and this is disregarded in calculating the food stamp benefit. The size of the benefit does not affect the family's eligibility for more energy assistance and the primary effect is to increase food stamp benefits. This energy disregard was modeled when food stamp benefits were calculated.

This section examines income in the one month of July which is the month in which AFDC benefits are usually increased. These amounts are then annualized to examine Federal tax policy. To some extent, this is a simplification of the real world. In some States, AFDC benefits vary by season. Food stamp benefit calculations are different at different times of the year. However, there is no reason to believe that annualizing July data presents a misleading picture of Federal and State policy changes between 1972 and 1986.

1988 projection methodology

AFDC benefit levels for 1988 were projected by calculating the nominal AFDC increase in each State from 1984 to 1986 and assuming this same percentage increase would apply between 1986 and 1988. In the model, work expenses remain at the 1986 amount of $105 per month. Food stamp benefits are estimated by using the same methodology as in previous years. Parameters for 1988 can be found in table 35.

The EITC in 1988 changed significantly due to the Tax Reform Act of 1986. In 1988, the credit will equal 14 percent of the first $6,240 in wages and is phased out at a 10 percent rate for income greater than $9,830. The maximum credit is $874. Provisions in the Tax Reform Act of 1986 changed the standard deduction, the personal exemption amount, and the individual rates. In 1988, the standard deduction for a head of household is assumed to be $4,400. The personal exemption in 1988 is assumed to be $1,950 per person. Thus, the Federal income tax threshold, not taking into account the earned income tax credit, will be $10,250 and $12,200 for a family of three and four, respectively. The FICA rate for 1988 is 7.51 percent.

TABLE 35.—SUMMARY OF KEY FOOD STAMP PARAMETERS

	1972	1976	1980	1984	1985	1986	1988
Monthly allotment:							
Family of 3	92	130	165	199	208	211	219.
Family of 4	112	166	209	253	264	268	279.
Monthly deduction amount.	40 [1]	55 [1]	75	89	95	98	104.
Work expenses.	Actual taxes plus 10 percent of wages up to $275 annually.	Actual taxes plus 10 percent of wages up to $375 annually.	20 percent of wages.	18 percent of wages.	18 percent of wages.	20 percent of wages.	20 percent of wages.
Monthly shelter deduction.	None	None	45	62.50	67	73.50	78.
Monthly countable income limit:							
Family of 3	Not applicable	$433	$520	$705	$738	$760	$807.
Family of 4	$390	$570	$621	$825	$888	$917	$974.
Gross monthly income limit:							
Family of 3	None	None	None	$917	$959	$988	$1,049.
Family of 4	None	None	None	$1,073	$1,154	$1,192	$1,266.

[1] In addition, the monthly purchase requirement table had a $30 deduction amount built into the table. These amounts include the shelter deduction.

TABLE 36.—PERCENTAGE DISTRIBUTION OF SELECTED SOURCES OF INCOME FOR ALL FAMILIES AND UNRELATED INDIVIDUALS CLASSIFIED BY FAMILY INCOME AS A RATIO OF THE POVERTY LEVEL, 1985

[In percent]

Type of income	Total	Ratio of total income to proverty threshold								Poor	Nonpoor
		Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over		
Total income	100	0.4	0.8	1.3	1.7	2.2	5.2	14.6	73.7	2.5	97.5
Social security and railroad	100	.6	2.2	5.9	7.7	7.6	14.1	22.9	39.0	8.7	91.3
SSI	100	2.9	15.0	23.9	16.1	11.3	9.6	10.9	10.2	41.9	58.1
AFDC and general assistance	100	26.8	32.7	17.0	7.1	5.2	4.9	3.9	2.5	76.4	23.6
Food stamps	100	41.4	28.0	14.3	6.3	3.8	3.4	2.0	.9	83.7	16.3
Unemployment compensation, workers compensation, and veterans payments	100	1.1	2.6	3.7	6.1	6.6	12.7	21.2	46.2	7.4	92.6
Wages, salaries, farm and self-employment	100	.2	.4	.8	1.1	1.8	4.6	14.3	76.8	1.4	98.6
Pensions	100	.1	.2	.6	.9	1.8	5.7	16.9	73.9	.9	99.1
Child support alimony	100	2.0	2.8	4.1	4.9	5.2	10.7	21.1	49.2	8.9	91.1
Property income	100	.2	.3	.4	.6	.9	2.7	8.6	86.4	.8	99.2

Note: This table illustrates the percentage of selected sources of income distributed to families classified by poverty level. The second number in the second row means that 0.6 percent of all social security goes to families whose income is less than 50 percent of the poverty level. The last number in the second row says that 91.3 percent of social security benefits go to families that are nonpoor.

Source: March 1986 Current Population Survey (CPS). Table prepared by CRS.

APPENDIX K. SELECTED ECONOMIC AND POPULATION DATA FOR THE UNITED STATES AND BY STATE

TABLE 1.—SELECTED ECONOMIC DATA

	1970	1975	1980	1985	1986
Wages:					
Average manufacturing wage [1]	$3.35	$4.83	$7.27	$9.53	[p] $9.73
Federal minimum wage	$1.60	$2.30	$3.10	$3.35	$3.35
Average annual wages and salaries [2]	$6,231	$8,504	$12,225	$15,553	[p] $15,852
In constant 1986 dollars	$17,595	$17,325	$16,267	$15,852	[p] $15,852
Unemployment rate (percent):					
Total [3]	4.8	8.3	7.0	7.1	6.9
Insured unemployment	3.4	6.0	3.9	2.0	2.8
Income:					
Median family income (constant 1985 dollars)	$27,336	$27,421	$27,446	$27,735	NA
GNP (billions):					
Current dollars	$1,016	$1,598	$2,732	$3,998	[p] $4,209
Constant 1982 dollars	$2,416	$2,695	$3,187	$3,585	[p] $3,677
Wages and salaries as a percent of GNP	54	51	50	49	[p] 49

[1] Includes overtime.
[2] Full-year equivalent for total private nonagricultural workers.
[3] Percent of total labor force, including Armed Forces residing in the United States.
[p] Preliminary.

NA—Not available.

TABLE 2.—MONTHLY DATA FOR CPI–U SINCE 1970

CPI–U: All Items (1967=100)

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
1970.....	113.3	113.9	114.5	115.2	115.7	116.3	116.7	116.9	117.5	118.1	118.5	119.1	116.3
1971.....	119.2	119.4	119.8	120.2	120.8	121.5	121.8	122.1	122.2	122.4	122.6	123.1	121.3
1972.....	123.2	123.8	124.0	124.3	124.7	125.0	125.5	125.7	126.2	126.6	126.9	127.3	125.3
1973.....	127.7	128.6	129.8	130.7	131.5	132.4	132.7	135.1	135.5	136.6	137.6	138.5	133.1
1974.....	139.7	141.5	143.1	143.9	145.5	146.9	148.0	149.9	151.7	153.0	154.3	155.4	147.7
1975.....	156.1	157.2	157.8	158.6	159.3	160.6	162.3	162.8	163.6	164.6	165.6	166.3	161.2
1976.....	166.7	167.1	167.5	168.2	169.2	170.1	171.1	171.9	172.6	173.3	173.8	174.3	170.5
1977.....	175.3	177.1	178.2	179.6	180.6	181.8	182.6	183.3	184.0	184.5	185.4	186.1	181.5
1978.....	187.2	188.4	189.8	191.5	193.3	195.3	196.7	197.8	199.3	200.9	202.0	202.9	195.4
1979.....	204.7	207.1	209.1	211.5	214.1	216.6	218.9	221.1	223.4	225.4	227.5	229.9	217.4
1980.....	233.2	236.4	239.8	242.5	244.9	247.6	247.8	249.4	251.7	253.9	256.2	258.4	246.8
1981.....	260.5	263.2	265.1	266.8	269.0	271.3	274.4	276.5	279.3	279.9	280.7	281.5	272.4
1982.....	282.5	283.4	283.1	284.3	287.1	290.6	292.2	292.8	293.3	294.1	293.6	292.4	289.1
1983.....	293.1	293.2	293.4	295.5	297.1	298.1	299.3	303.3	301.8	302.6	303.1	303.5	298.4
1984.....	305.2	306.6	307.3	308.8	309.7	310.7	311.7	313.0	314.5	315.3	315.3	315.5	311.1
1985.....	316.1	317.4	318.8	320.1	321.3	322.3	322.8	323.5	324.5	325.5	326.6	327.4	322.2
1986.....	328.4	327.5	326.0	325.3	326.3	327.9	328.0	328.6	330.2	330.5	330.8	331.1	328.4

TABLE 3.—POPULATION STATISTICS BY STATE

State	Resident population July 1, 1985 (thousands)	Population 65 years and over (thousands)	Percentage of population over age 65	Percentage change 1980–84 [1]	Percentage change 1970–80
Total	238,291	28,040	11.9	4.2	11.4
Connecticut	3,174	407	12.9	2.1	2.5
Maine	1,164	152	13.1	3.5	13.2
Massachusetts	5,882	777	13.4	1.5	0.8
New Hampshire	998	114	11.7	8.4	24.8
Rhode Island	968	138	14.3	2.2	−0.3
Vermont	535	63	11.8	4.6	15.0
Delaware	622	67	11.0	4.6	8.4
District of Columbia	626	75	12.1	−2.0	−15.6
Maryland	4,392	447	10.3	4.2	7.5
New Jersey	7,562	942	12.5	2.7	2.7
New York	17,783	2,247	12.7	1.3	−3.7
Pennsylvania	11,853	1,676	14.1	−0.1	0.5
Illinois	11,535	1,356	11.8	0.9	2.8
Indiana	5,499	638	11.6	0.2	5.7
Michigan	9,088	1,007	11.1	−1.9	4.3
Ohio	10,744	1,280	11.9	−0.5	1.3
Wisconsin	4,775	611	12.8	1.5	6.5
Iowa	2,884	410	14.1	−1.0	3.1
Kansas	2,450	323	13.3	3.7	5.1
Minnesota	4,193	517	12.4	2.9	7.1
Missouri	5,029	682	13.6	2.3	5.1
Nebraska	1,606	216	13.4	2.3	5.7
North Dakota	685	87	12.6	4.9	5.7
South Dakota	708	96	13.6	2.5	3.7
Alabama	4,021	476	11.9	3.3	13.1
Arkansas	2,359	336	14.3	3.2	18.9
Florida	11,366	1,931	17.6	16.6	43.5
Georgia	5,976	577	9.9	9.4	19.1
Kentucky	3,726	438	11.8	1.8	13.7
Louisiana	4,481	435	9.7	6.5	15.4
Mississippi	2,613	306	11.8	3.7	13.7
North Carolina	6,255	688	11.2	6.4	15.7
South Carolina	3,347	331	10.0	7.2	20.5
Tennessee	4,762	566	12.0	3.7	16.9
Virginia	5,706	572	10.2	6.7	14.9
West Virginia	1,936	255	13.0	−0.7	11.8
Arizona	3,187	375	12.3	17.2	53.1
New Mexico	1,450	135	9.5	11.3	28.1
Oklahoma	3,301	401	12.1	9.1	18.2

TABLE 3.—POPULATION STATISTICS BY STATE—Continued

State	Resident population July 1, 1985 (thousands)	Population 65 years and over (thousands)	Percentage of population over age 65	Percentage change 1980–84 [1]	Percentage change 1970–80
Texas	16,370	1,514	9.5	15.0	27.1
Colorado	3,231	280	8.8	11.8	30.8
Idaho	1,005	108	10.8	6.4	32.4
Montana	826	96	11.6	5.0	13.3
Utah	1,645	128	7.7	12.6	37.9
Wyoming	509	42	8.2	8.5	41.3
California	26,365	2,693	10.5	11.4	18.5
Nevada	936	87	9.5	16.9	63.8
Oregon	2,687	344	12.9	2.1	25.9
Washington	4,409	492	11.3	6.7	21.1
Alaska	521	15	3.1	29.7	32.8
Hawaii	1,054	94	9.0	9.2	25.3

[1] Figures revised, December 1985.

Source: U.S. Department of Commerce, Bureau of the Census, Population Estimates and Projections, Series P–25, No. 957, Press Release CB84–233, and unpublished records.

TABLE 4.—INCOME, POVERTY AND UNEMPLOYMENT STATISTICS BY STATE

State	1984 per capita personal income [1]	Rank 1984 [1]	1984 unemployment rate [2] (percent)	Poverty rate		
				1969 [3]	1975 [4]	1979 [5]
Total			7.5	13.7	11.4	12.4
Connecticut	16,556	2	4.6	7.2	6.7	8.0
Maine	10,813	37	6.1	13.6	12.0	13.0
Massachusetts	14,784	4	4.8	8.6	7.1	9.6
New Hampshire	13,192	15	4.3	9.1	7.9	8.5
Rhode Island	12,820	17	5.3	11.0	8.7	10.3
Vermont	10,802	39	5.2	12.1	13.5	12.0
Delaware	13,685	10	6.2	10.9	8.2	11.8
District of Columbia	17,113	.....	9.0	17.0	12.5	18.6
Maryland	14,464	6	5.4	10.1	7.7	9.8
New Jersey	15,440	3	6.2	8.1	8.1	9.5
New York	14,318	7	7.2	11.1	9.4	13.4
Pennsylvania	12,314	26	9.1	10.6	9.7	10.5
Illinois	13,802	9	9.1	10.2	10.5	11.0
Indiana	11,717	31	8.6	9.7	8.1	9.7
Michigan	12,607	20	11.2	9.4	9.1	10.4
Ohio	12,355	24	9.4	10.0	9.4	10.3
Wisconsin	12,474	22	7.3	9.8	7.7	8.7

TABLE 4.—INCOME, POVERTY AND UNEMPLOYMENT STATISTICS BY STATE—Continued

State	1984 per capita personal income [1]	Rank 1984 [1]	1984 unemployment rate [2] (percent)	Poverty rate		
				1969 [3]	1975 [4]	1979 [5]
Iowa	12,160	28	7.0	11.6	7.9	10.1
Kansas	13,248	13	5.2	12.7	8.0	10.1
Minnesota	13,247	14	6.3	10.7	8.3	9.5
Missouri	12,151	29	7.2	14.7	12.0	12.2
Nebraska	12,430	23	4.4	13.1	9.6	10.7
North Dakota	12,352	25	5.1	15.7	10.6	12.6
South Dakota	11,069	35	4.3	18.7	13.1	16.9
Alabama	9,992	46	11.1	25.4	16.4	18.9
Arkansas	9,805	47	8.9	27.8	18.5	19.0
Florida	12,763	19	6.3	16.4	14.4	13.4
Georgia	11,551	34	6.0	20.7	18.0	16.6
Kentucky	10,300	42	9.3	22.9	17.7	17.6
Louisiana	10,808	38	10.0	26.3	19.3	18.6
Mississippi	8,777	50	10.8	35.4	26.1	23.9
North Carolina	10,850	36	6.7	20.3	14.7	14.8
South Carolina	10,116	44	7.1	23.9	17.2	16.6
Tennessee	10,419	41	8.6	21.8	15.8	16.4
Virginia	13,254	12	5.0	15.5	10.5	11.8
West Virginia	9,728	49	15.0	22.2	15.1	15.0
Arizona	11,841	30	5.0	15.3	13.8	13.2
New Mexico	10,262	43	7.5	22.8	19.3	17.6
Oklahoma	11,655	32	7.0	18.8	13.8	13.4
Texas	12,572	21	5.9	18.8	15.2	14.7
Colorado	13,847	8	5.6	12.3	9.1	10.1
Idaho	10,092	45	7.2	13.2	10.3	12.6
Montana	10,546	40	7.4	13.6	11.5	12.3
Utah	9,733	48	6.5	11.4	8.5	10.3
Wyoming	12,224	27	6.3	11.7	8.7	7.9
California	14,487	5	7.8	11.1	10.4	11.4
Nevada	13,320	11	7.8	9.1	8.8	8.7
Oregon	11,611	33	9.4	11.5	8.9	10.7
Washington	12,792	18	9.5	10.2	8.5	9.8
Alaska	17,487	1	10.0	12.6	6.7	10.7
Hawaii	13,042	16	5.6	9.3	7.9	9.9

[1] U.S. Department of Commerce, Bureau of Economic Analysis.

[2] U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey.

[3] U.S. Bureau of the Census, Statistical Abstract of the United States: 1979, table 764, pp. 465 (100th edition), Washington, D.C. 1979. 1969 estimates are from the 1970 census.

[4] Data are also from the 1979 Statistical Abstract of the United States, but estimates are from the Survey of Income and Education.

[5] U.S. Bureau of the Census, Statistical Abstract of the United States: 1982–83, table 732, p. 443. (103d edition.) Washington, D.C. 1982. 1979 estimates are from the 1980 census.

TABLE 5.—POPULATION BY AGE GROUPS, 1940–85, SELECTED YEARS

[Thousands of persons]

July 1	Total	Age (years)				
		16–19	20–24	25–44	45–64	65 and over
1940	132,122	9,895	11,690	39,868	26,249	9,031
1945	139,928	9,361	12,036	42,521	28,630	10,494
1950	152,271	8,542	11,680	45,672	30,849	12,397
1955	165,931	8,744	10,714	47,194	33,506	14,525
1960	180,671	10,683	11,134	47,140	36,203	16,675
1965	194,303	13,516	13,746	46,912	38,916	18,451
1970	205,052	15,289	17,202	48,473	41,999	20,107
1971	207,661	15,688	18,159	48,936	42,482	20,561
1972	209,896	16,039	18,153	50,482	42,898	21,020
1973	211,909	16,446	18,521	51,749	43,235	21,525
1974	213,854	16,769	18,975	53,051	43,522	22,061
1975	215,973	17,017	19,527	54,302	43,801	22,696
1976	218,035	17,194	19,986	55,852	44,008	23,278
1977	220,239	17,276	20,499	57,561	44,150	23,892
1978	222,585	17,288	20,946	59,400	44,286	24,502
1979	225,055	17,242	21,297	61,379	44,390	25,134
1980	227,738	17,160	21,579	63,488	44,510	25,709
1981	230,043	16,769	21,799	65,583	44,546	26,259
1982	232,345	16,247	21,780	67,772	44,560	26,861
1983	234,538	15,689	21,680	69,826	44,623	27,474
1984	236,681	15,121	21,525	71,825	44,752	28,040
1985	238,816	.....	.....	.....	.....	.....

Note: Includes Armed Forces overseas. Alaska and Hawaii beginning 1950.

Source: Department of Commerce, Bureau of the Census.

TABLE 6.—PROJECTIONS OF THE RESIDENT POPULATION OF THE UNITED STATES, BY AGE AND SEX: 1980 TO 2000

[In thousands as of July 1, except as noted]

Age (years)	Both sexes			Female		
	Census, (April 1, 1980)	Projections		Census (April 1, 1980)	Projections	
		1990	2000		1990	2000
Total, all ages	226,546	249,134	267,432	116,493	128,089	137,414
15 to 19	21,168	16,916	18,891	10,413	8,294	9,257
20 to 24	21,319	18,360	16,925	10,655	9,111	8,396
25 to 29	19,521	21,410	17,284	9,816	10,632	8,579
30 to 34	17,561	21,939	18,951	8,884	10,991	9,430
35 to 39	13,965	19,955	21,707	7,104	10,067	10,827
40 to 44	11,669	17,827	21,971	5,961	9,048	11,049
45 to 49	11,090	13,975	19,758	5,702	7,148	10,024
50 to 54	11,710	11,421	17,355	6,089	5,903	8,899
55 to 59	11,615	10,433	13,280	6,133	5,479	6,917
60 to 64	10,088	10,618	10,487	5,418	5,701	5,578
65 to 69	8,782	9,996	9,096	4,880	5,538	4,989
70 to 74	6,798	8,039	8,581	3,945	4,634	4,916
75 to 79	4,794	6,260	7,295	2,946	3,825	4,426
80 to 84	2,935	4,089	5,023	1,916	2,669	3,252
85 and over	2,240	3,313	4,926	1,559	2,393	3,576

Source: Bureau of the Census, Population Estimates and Projections, Series P–25, No. 952.

TABLE 7.—PERCENT OF SELECTED POPULATION GROUPINGS RECEIVING AFDC, DI, UI AND SSI BY REGION/STATE

	Percent of children on AFDC 1984	Percent of people age 25–64 on DI 1985	Percent of people age 25–64 on UI 1985	Percent of people age 25–64 on SSI 1985
New England:				
Maine	10.5	2.6	2.5	2.4
New Hampshire	4.0	1.8	1.0	0.8
Vermont	9.9	2.2	1.9	2.3
Massachusetts	11.2	1.9	2.2	1.8
Rhode Island	12.4	2.8	3.0	2.1
Connecticut	10.9	1.7	1.8	1.2
Middle Atlantic:				
New York	16.6	2.2	2.2	2.6
New Jersey	13.3	2.0	2.4	1.6
Pennsylvania	12.9	2.3	2.8	1.9
East North Central:				
Ohio	14.6	2.3	2.0	1.8
Indiana	7.3	2.3	1.5	1.3
Illinois	15.9	1.8	2.3	1.7
Michigan	18.3	2.4	1.9	2.0

TABLE 7.—PERCENT OF SELECTED POPULATION GROUPINGS RECEIVING AFDC, DI, UI AND SSI BY REGION/STATE—Continued

	Percent of children on AFDC 1984	Percent of people age 25–64 on DI 1985	Percent of people age 25–64 on UI 1985	Percent of people age 25–64 on SSI 1985
Wisconsin	13.5	2.1	2.3	2.0
West North Central:				
Minnesota	7.9	1.5	1.8	1.1
Iowa	9.7	1.9	1.9	1.3
Missouri	9.6	2.5	1.8	2.0
North Dakota	3.8	1.6	1.6	1.3
South Dakota	5.5	1.9	1.0	1.6
Nebraska	6.2	1.7	1.6	1.3
Kansas	6.8	1.7	1.7	1.3
South Atlantic:				
Delaware	10.7	2.3	1.2	1.6
Maryland	11.4	1.6	1.5	1.6
District of Columbia	33.9	1.7	2.4	3.4
Virginia	7.3	2.1	0.8	1.8
West Virginia	11.7	3.7	2.3	3.3
North Carolina	6.9	2.7	1.8	2.5
South Carolina	9.1	2.9	2.2	3.0
Georgia	10.1	2.7	1.4	3.0
Florida	7.6	2.4	1.2	1.8
East South Central:				
Kentucky	10.1	3.2	1.8	3.4
Tennessee	8.3	2.8	1.9	3.2
Alabama	9.4	3.0	2.1	3.4
Mississippi	14.1	3.7	2.5	4.9
West South Central:				
Arkansas	6.8	3.6	2.1	3.4
Louisiana	11.5	2.5	3.1	3.5
Oklahoma	6.0	2.0	1.6	2.1
Texas	5.0	1.4	1.2	1.6
Mountain:				
Montana	5.7	2.1	1.8	1.4
Idaho	3.6	1.8	2.7	1.3
Wyoming	3.6	1.2	1.4	0.6
Colorado	6.4	1.4	1.6	1.2
New Mexico	7.8	2.0	1.8	2.4
Arizona	5.9	2.2	1.5	1.4
Utah	4.0	1.2	1.3	0.9
Nevada	3.8	1.8	1.9	0.7

Pacific:				
Washington	8.9	1.8	2.7	1.6
Oregon	6.6	2.1	2.9	1.3
California	15.5	1.8	2.7	2.9
Alaska	6.2	0.7	4.6	0.8
Hawaii	11.8	1.3	1.9	1.2
National totals	11.3	2.2	2.1	2.1

Source: AFDC (Aid to Families with Dependent Children): Social Security Bulletin, July 1986, Table M–29; Bureau of the Census, Series P–25, No. 998, Table 4 (July 4, 1984).

DI (Disability Insurance): Social Security Bulletin, December 1986, Table Q–10; Bureau of the Census, Series P–25, No. 998, Table 4 (July 1, 1985).

UI (Unemployment Insurance): Social Security Bulletin, June 1986, Table M–35; Bureau of the Census Series P–25, No. 998, Table 4 (July 1, 1985).

SSI (Supplemental Security Income): Office of Supplemental Security Income, Social Security Administration; Bureau of the Census, Series P–25, No. 998, Table 4 (July 1, 1985).

APPENDIX L. QUALITY CONTROL SYSTEMS

In the four major welfare programs, AFDC, SSI, medicaid, and the food stamp program, the Federal Government and the States have established on-going "quality control" systems. These systems have two goals: correcting faults in program administration that contribute to erroneous payments and reducing the extent of misspent benefit dollars. To these ends, they attempt to: (1) measure the extent and dollar value of "errors" in administration; (2) identify the types and causes of error; and (3) specify and monitor corrective actions taken to eliminate or reduce errors.

Fiscal incentives and sanctions have also been made a part of these systems. Under these sanctions, States can be held liable for the cost of benefit payments made in excess of federally established error tolerance levels, often referred to as target error rates, or (in the food stamp program) they may be sanctioned by the loss of a portion or all of the Federal share of their food stamp administrative expenses. The Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) included new target error rates for AFDC and medicaid; the 1982 Omnibus Budget Reconciliation Act (P.L. 97-253) also established target error rates for the food stamp program. The AFDC target error rate for fiscal year 1983 was 4 percent, and was reduced to 3 percent for fiscal year 1984 and thereafter. For medicaid, a 3-percent target error rate was established for quarters beginning after March 30, 1983. Under medicaid, prospective fiscal sanctions were authorized to be applied beginning in the second half of fiscal year 1983 for States with error rates exceeding 3 percent. However, errors, which, if corrected, would not have made a difference in the amount of medical assistance paid, are excluded from the calculation.

Under the food stamp law which became effective at the start of fiscal year 1983, States were required to reduce their error rates by one-third each year, but they also were required to reach 5 percent by fiscal year 1985.

For AFDC and medicaid there are no longer any fiscal incentive provisions except in Guam, Puerto Rico, and the Virgin Islands. For food stamps, the incentive provision is an increase from 50 percent to 60 percent in the Federal share of administrative costs for States with error rates of 5 percent or less.

Measurement of Error

The core of the four existing quality control systems is the quality control case survey. Each system compiles the results of a randomly selected, statistically valid, sample of cases ranging from 40,000 to 80,000 nationwide. For AFDC, food stamps, and SSI, the cases are now selected, and error data compiled, on an annual basis rather than every 6 months as is the case in medicaid. In the past,

AFDC, food stamps, and SSI programs also collected quality control data every 6 months. Each selected case is subjected to a thorough review by quality control personnel, including a full field investigation. This review identifies payments to ineligibles, overpayments, underpayments, the type of error made, the responsibility (recipient versus administering agency) for the error, and, in some cases, incorrect denials of aid. Error "rates" are then established for that review period for each State: "caseload" error rates indicate the proportion of ineligible cases, overpaid cases, underpaid cases, and, in some cases, improperly denied cases in the sample caseload; "payment" error rates indicate the extent of erroneous payments in each category of error as a proportion of total dollars paid out to the sampled caseload. Moreover, information on the sources and types of errors identified in each quality control review is compiled for use in implementing administrative "corrective actions" intended to reduce or eliminate similar errors in the future.

In the AFDC and food stamp systems, quality control error rates quantify the extent to which eligibility and payment errors exist in the State-administered caseloads of these two programs. In the medicaid system, quality control error rates indicate the extent to which errors as to eligibility, overpayment, claims processing (payment of improper claims), and identification of third-party liability exist in the medicaid population. And, in the SSI system, quality control error rates illustrate the extent and cost of errors in the federally administered caseload.

The "errors" identified and measured in all four quality control systems range from simple procedural or arithmetical mistakes, to lack of verification or nonreporting of income, to outright recipient fraud. As a result, although quality control error rates and the information behind them do give a picture of the extent to which improper decisions are being made and help administering agencies pinpoint areas where improvement is needed, they do not represent a statistically accurate measure of intentional actions such as fraud. In fact, "agency-caused" procedural errors make up nearly half the errors typically identified in quality control surveys, and "recipient-caused" errors are often simple mistakes in understanding what is required or failure to provide information on a timely basis.

Administration

In the AFDC, medicaid, and food stamp programs, the quality control systems are operated by State quality control staff under Federal instructions and guidelines. A State's error rate is determined by using findings from both the State's full sample and a Federal subsample. In the SSI program, the entire quality control system is Federally operated since it measures the performance of Federal administration. When identifying errors in food stamp and SSI administration, agency and recipient actions are compared to Federal rules; in the AFDC and medicaid systems, errors are identified through comparison with State operating policies, the State plan and Federal regulations.

The cost of operating quality control systems is carried as a regular administrative cost and is shared by the States and Federal Government, just as any other administrative expense.

Corrective Action

The basic goal of quality control systems is to reduce, over time, the extent and cost of errors in program administration. As part of each system, "corrective action plans" for error reduction are regularly formulated based on the findings of the quality control sample surveys. Corrective actions can range from personnel policy changes or new computer systems, to substantive changes in eligibility rules or procedures for verifying information provided by recipients. Very often, "error-prone" profiles are drawn up from the results of quality control surveys to assist administrators in identifying cases to which particular attention should be paid.

Sanctions and Incentives

Another use of the results of a quality control sample is to determine the degree to which States (or the Federal Government in the case of SSI) will be held financially liable for erroneous payments.

In the AFDC and medicaid systems, States may be "sanctioned" by being required to pay the Federal Government the Federal cost of improperly issued benefits, as shown by quality control surveys, if they do not keep their error rates below the target rates established by the Tax Equity and Fiscal Responsibility Act for AFDC and medicaid. The fiscal sanction that may be imposed is the amount of Federal funds misspent above the target error rate. In food stamps, States may be sanctioned through loss of a portion or all of the Federal share of their administrative expenses. However, while fiscal sanctions have been included in legislation prior to the 1982 laws, they have been waived when States demonstrate that they are making a good faith effort to reduce errors. When waivers are not granted, States have begun to appeal the decision to impose sanctions through administrative channels and the courts. In April 1986, as part of the Consolidated Omnibus Budget Reconciliation Act of 1985, a 2-year moratorium was imposed on the collection of AFDC fiscal sanctions (until July 1988). The act requires the Department of Health and Human Service to conduct a study of the AFDC and medicaid quality control systems for the purposes of restructuring the system as necessary during the moratorium period. The Department is also required to contract with the National Academy of Sciences to conduct an independent study.

Table 1 depicts the estimated AFDC sanction amounts and collection schedule according to the Department of Health and Human Services and the Congressional Budget Office. HHS assumes that the entire estimated sanction will be collected beginning in fiscal year 1988. CBO delays collection and assumes that waivers will be granted for some of the estimated sanction amount.

Food stamp program incentive payments are made as increases in the Federal share of State administrative expenses—from the normal 50 percent to 60 percent where the cumulative error rate is less than 5 percent. The food stamp incentive payment requirements also stipulate that the rate of improper denials must fall

below a Federal tolerance level in order for an incentive payment to be made on the basis of low or rapidly reducing rates of erroneous payment.

Table 2 summarizes national payment error rates for the four major welfare programs over recent quality control review periods. Table 3 shows the historical trend in the AFDC error rate beginning in 1973.

For AFDC, the national average payment error rate has remained well above the target rate of 3.0 percent. Food stamp program quality control data also show error rates well above the legislated target levels. However, the medicaid program has shown declining error rates.

TABLE 1.—SANCTION AMOUNTS AND ESTIMATED COLLECTION SCHEDULE

Year errors were made	Estimated sanction amount (in millions)	HHS and CBO projected schedules for collecting sanctions	
		HHS estimate	CBO estimate
Fiscal year:			
1981	[1] $69		
1982	96		
1983	184		
1984	233		
1985	259	0	0
1986	242	0	0
1987	214	0	0
1988	188	$349	0
1989	167	734	$111
1990	145	402	453
1991	131	167	306
1992	117	145	238
Total	2,045	1,797	1,108

[1] Disallowance notices issued to States. Amount reflects waivers by Secretary of HHS.

Source: Department of Health and Human Services and Congressional Budget Office. Compiled by committee staff.

TABLE 2.—SUMMARY OF NATIONAL OVERPAYMENT ERROR RATES BY PROGRAM

	AFDC	Medicaid [1]	Food stamps [2]	SSI
October 1979–March 1980	8.3	5.2	10.2	5.0
April 1980–September 1980	7.3	5.0	8.9	4.9
October 1980–March 1981	8.3	4.0	10.5	5.3
April 1981–September 1981	7.0	3.0	9.1	4.9
October 1981–March 1982	7.3	2.7	9.9	4.8
April 1982–September 1982	[3] 6.6	2.9	9.2	4.1
October 1982–March 1983	6.2	2.6	8.2	4.1
April 1983–September 1983	6.8	2.9	8.5	3.6
October 1983–March 1984	6.2	2.5	[4] 8.6	[4] 3.3
April 1984–September 1984	5.8	2.9	[4] 8.6	[4] 3.3
October 1984–March 1985	[5] 5.8	NA	NA	[5] 3.3
April 1985–September 1985	[5] 6.7	NA	NA	[5] 3.3

[1] The error rates for the periods between October 1979 and March 1981 have been adjusted to reflect the new payment error rate definition implemented in April 1981.

[2] Overpayment dollar error rate only. Source: Official Federally corrected rates, General Accounting Office.

[3] Estimated.

[4] The food stamps and SSI error rates are no longer calculated for a 6-month period, but for a fiscal year. These statistics are for fiscal year 1984.

[5] These statistics are for fiscal year 1985.

NA = Not available.

Note: Overpayment errors include payments made to ineligible families but does not include underpayments.

Source: Department of Health and Human Services and U.S. Department of Agriculture. Compiled by committee staff.

TABLE 3.—HISTORICAL TRENDS IN THE AFDC ERROR RATE, 1973–85

Period	Percent	Period	Percent
April–September 1973	16.5	October–March 1980	8.3
January–June 1974	14.8	April–September 1980	7.3
July–December 1974	13.6	October–March 1981	8.3
January–June 1975	12.0	April–September 1981	7.0
July–December 1975	10.2	October–March 1982	7.3
January–June 1976	9.6	April–September 1982	6.6
July–December 1976	8.5	October 1982–March 1983	6.2
January–June 1977	8.6	April 1983–September 1983	6.8
July–December 1977	8.7	October 1983–March 1984	6.2
January–June 1978	10.5	April 1984–September 1984	5.8
April–September 1978	9.4	October 1984–March 1985	5.8
October–March 1979	10.4	April 1985–September 1985	6.7
April–September 1979	9.5		

Source: Department of Health and Human Services, Office of Family Assistance.

Historical Perspective of Quality Control in the AFDC Program

In the early 1960's, as AFDC costs and caseloads began to grow, Congress requested that the Department of Health, Education, and Welfare verify AFDC expenditures. In response to this request, the Department developed an on-going system to validate eligibility and benefits and to serve as a management tool to improve the accuracy of the eligibility and benefit determination process. This evolved into the current quality control system. Table 4 shows State payment errors over time.

In 1973 regulations were issued establishing error tolerance levels of 3 percent on errors resulting from ineligibility and 5 percent on under and overpayments. Any erroneous payments made by the State above these amounts would be disallowed. These tolerances, which were not established by statute, were challenged in court as being arbitrary and capricious by the State of Maryland (*Mathews* v. *Maryland*). The court ruled in Maryland's favor (1978).

On March 7, 1979, the Department issued new regulations establishing error rate limits based on the national average of error rates. The March 7 regulations also included a "good cause" provision enabling the Secretary to waive disallowances based on the State's failure to meet the limit. The March 7 regulation and the threat of disallowances were effective in getting States to implement corrective action. Disallowances were temporarily suspended if States submitted negotiated corrective action plans. No disallowances were taken.

In 1979 the Michel amendment was attached to the Labor, HHS and Education fiscal year 1980 appropriation bill. This amendment requires each State to reach a payment error rate of 4 percent by September 30, 1983. In January 1980 the Department issued the following rules implementing the Michel requirements: States were required to make one-third progress toward the 4 percent goal in fiscal year 1981; two-thirds progress toward the goal in fiscal year 1982; and to attain 4 percent in fiscal year 1983.

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) included further AFDC error rate reduction requirements. TEFRA requires States to move from the 4 percent standard established by the Michel amendment to a 3 percent standard in fiscal year 1984.

Table 4 shows the State error rates for fiscal years 1980–84. States exceeding the target for a given year are indicated. HHS had delayed notifying States of the disallowance amounts for each of these years until new regulations governing the waiver process were issued. However, States recently received notice of potential disallowances for fiscal year 1982; the expected regulations have not been issued.

Columns 1 and 2 of table 5 show State payment error rates and target error rates for fiscal year 1981, the first year the Michel requirements were in effect. Based on these data, 28 States are subject to disallowance for failure to meet their error rate targets for that fiscal year.[1] These are shown in column 3. In March 1983,

[1] The fiscal year 1984 appropriation legislation suggested that no sanctions be taken until a major review of the quality control program is carried out; the Department, as of January 10, 1984, was proceeding with the sanctioning process.

States were informed of their failure to meet their targets, of the amount of the disallowances, and of the States' right to request a waiver of the disallowance. All 28 States subject to disallowance for failure to meet their fiscal year 1981 targets requested good faith waivers. In April 1986, six States were granted waivers by the HHS Secretary; the remainder have appealed the Secretary's decision to the Grant Appeals Board. Column 4 of table 5 shows the post-waiver disallowance amounts.

TABLE 4.—AFDC ERROR RATES FOR BASE PERIOD AND FISCAL YEARS 1980–85

	April–September 1978	1980	1981	1982	1983	1984	1985
U.S. average	9.4	7.8	7.6	6.9	6.5	6.0	6.1
Alabama	9.5	7.1	[1] 7.7	5.3	3.2	[1] 4.4	[1] 3.9
Alaska	31.2	13.9	18.2	12.1	[1] 15.5	[1] 6.8	[1] 10.5
Arizona [2]	8.0	8.7	[1] 8.3	[1] 11.6	[1] 10.0	[1] 9.7	[1] 9.3
Arkansas	9.1	7.6	6.8	[1] 7.0	[1] 4.9	[1] 3.8	3.0
California	3.7	5.7	[1] 6.8	[1] 6.0	[1] 4.8	[1] 5.0	[1] 5.9
Colorado	4.3	11.6	[1] 8.2	[1] 6.6	[1] 6.2	[1] 4.6	[1] 5.5
Connecticut	8.6	6.3	[1] 7.4	[1] 6.4	[1] 4.4	[1] 3.4	[1] 4.7
Delaware	16.1	8.0	11.3	[1] 11.9	[1] 9.4	[1] 7.8	[1] 7.9
District of Columbia	22.4	12.5	13.6	[1] 17.1	[1] 13.1	[1] 11.2	[1] 9.9
Florida	5.6	6.1	[1] 7.9	[1] 6.0	[1] 4.5	[1] 5.4	[1] 5.7
Georgia	7.8	8.1	6.5	5.1	[1] 5.7	[1] 6.2	[1] 7.8
Hawaii	9.2	9.0	[1] 10.1	[1] 8.2	[1] 6.9	[1] 6.7	[1] 6.4
Idaho	4.4	9.0	[1] 9.1	[1] 5.4	3.0	[1] 9.7	[1] 3.9
Illinois	17.1	8.1	8.3	8.2	[1] 6.8	[1] 6.5	[1] 7.3
Indiana	3.7	4.5	[1] 4.1	3.9	[1] 4.9	[1] 4.0	[1] 4.7
Iowa	7.8	4.2	4.3	4.5	3.4	[1] 3.7	[1] 4.9
Kansas	4.1	5.8	[1] 8.1	2.8	[1] 5.1	[1] 5.5	[1] 5.2
Kentucky	10.2	5.4	5.0	3.6	3.4	[1] 4.2	[1] 3.1
Louisiana	11.1	6.8	6.7	6.2	[1] 5.7	[1] 5.8	[1] 7.2
Maine	9.2	6.6	[1] 7.9	4.1	[1] 4.5	[1] 4.1	[1] 5.7
Maryland [2]	13.6	12.7	[1] 11.6	[1] 8.2	[1] 5.3	[1] 5.7	[1] 7.1
Massachusetts	15.9	12.5	9.3	7.4	[1] 11.4	[1] 7.8	[1] 3.6
Michigan	9.2	7.7	7.3	[1] 8.2	[1] 9.1	[1] 8.0	[1] 6.6
Minnesota	3.4	3.3	[1] 4.4	3.0	2.6	2.0	[1] 3.0
Mississippi	11.6	7.4	6.9	4.7	3.5	2.0	2.8
Missouri	10.1	7.3	7.1	4.8	3.4	[1] 3.7	[1] 3.9
Montana	9.7	10.2	4.9	2.5	2.5	[1] 6.9	[1] 7.5
Nebraska	4.6	4.9	[1] 5.5	[1] 9.6	[1] 4.7	[1] 6.9	[1] 8.1
Nevada	0.6	1.2	2.3	1.3	2.7	2.1	2.6

TABLE 4.—AFDC ERROR RATES FOR BASE PERIOD AND FISCAL YEARS 1980–85—Continued

	April–September 1978	1980	1981	1982	1983	1984	1985
New Hampshire	11.0	11.0	6.6	5.9	[1] 4.3	[1] 7.5	[1] 5.2
New Jersey [2]	9.3	10.4	[1] 8.0	[1] 7.3	[1] 6.4	[1] 5.1	[1] 6.3
New Mexico	4.8	7.3	[1] 12.4	[1] 10.5	[1] 6.0	[1] 6.2	[1] 5.7
New York	8.8	8.3	[1] 8.0	[1] 8.0	[1] 9.4	[1] 7.1	[1] 7.4
North Carolina	7.9	5.6	5.4	3.3	2.7	[1] 3.5	2.2
North Dakota	1.6	6.0	3.1	1.9	2.1	[1] 4.7	1.2
Ohio	9.5	8.7	[1] 8.9	[1] 7.6	[1] 5.6	[1] 6.4	[1] 6.6
Oklahoma	3.2	4.4	[1] 6.6	3.8	[1] 4.1	3.0	2.8
Oregon	12.7	4.5	6.8	6.4	[1] 6.0	[1] 4.6	[1] 3.9
Pennsylvania	16.3	9.8	9.0	[1] 8.5	[1] 9.1	[1] 9.1	[1] 6.6
Rhode Island	12.7	8.9	6.3	5.7	[1] 6.2	[1] 3.7	[1] 4.6
South Carolina [2]	7.1	7.3	[1] 7.8	[1] 8.9	[1] 7.1	[1] 7.8	[1] 7.0
South Dakota	4.8	5.2	[1] 4.6	3.7	2.1	2.9	1.5
Tennessee	7.0	7.0	[1] 8.9	4.9	[1] 4.5	[1] 4.3	[1] 3.4
Texas	6.9	7.6	[1] 7.5	[1] 8.4	[1] 6.9	[1] 5.7	[1] 4.3
Utah [2]	2.8	7.1	[1] 4.9	[1] 5.0	[1] 5.7	[1] 5.8	[1] 4.5
Vermont [2]	4.5	11.4	[1] 5.2	[1] 4.5	[1] 7.9	[1] 5.8	[1] 5.7
Virginia	11.7	5.0	3.6	4.1	3.8	[1] 3.5	[1] 3.5
Washington	6.7	9.0	[1] 9.3	[1] 6.4	[1] 4.8	[1] 4.1	[1] 6.4
West Virginia	11.3	6.1	7.4	[1] 8.2	3.0	4.8	[1] 5.8
Wisconsin	11.1	7.9	8.2	[1] 6.5	[1] 5.1	[1] 6.6	[1] 8.6
Wyoming	4.0	13.8	[1] 13.7	[1] 4.8	[1] 7.7	[1] 5.6	[1] 3.0
Puerto Rico	7.8	7.6	[1] 8.9	[1] 8.9	[1] 8.6	[1] 7.7	[1] 6.3
Guam	NA	NA	NA	NA	[1] 19.7	[1] 21.9	[1] 14.2
Virgin Islands	11.2	NA	6.9	4.6	[1] 8.6	2.4	[1] 4.2
Total subject to disallowance			28	28	40	49	47

[1] Error rate exceeds target.
[2] Granted waiver of fiscal year 1981 disallowance.

Source: Department of Health and Human Services, Office of Family Assistance.

TABLE 5.—AFDC ERROR AND TARGET RATES FOR FISCAL YEAR 1981 AND POTENTIAL DISALLOWANCE AMOUNTS

	Fiscal year 1981 [1]	Target rate	Potential disallowance amount (thousands)	Post-waiver disallowance amount (thousands)
U.S. average	7.6	.....	$73,502	$69,159
Alabama	7.7	7.6	47	47
Alaska	18.2	22.1	.....	.....
Arizona	8.3	6.7	209	0
Arkansas	6.8	7.4	.....	.....
California	6.8	4.0	35,067	35,067
Colorado	8.2	4.2	1,898	1,898
Connecticut	7.4	7.1	313	313
Delaware	11.3	12.0	.....	.....
District of Columbia	13.6	16.3	.....	.....
Florida	7.9	5.1	3,467	3,467
Georgia	6.5	6.5	.....	.....
Hawaii	10.1	7.5	1,212	1,212
Idaho	9.1	4.3	691	691
Illinois	8.3	12.7	.....	.....
Indiana	4.1	4.0	113	113
Iowa	4.3	6.5	.....	.....
Kansas	8.1	4.1	1,903	1,903
Kentucky	5.0	8.1	.....	.....
Louisiana	6.7	8.7	.....	.....
Maine	7.9	7.5	168	168
Maryland	11.6	10.4	1,325	0
Massachusetts	9.3	11.9	.....	.....
Michigan	7.3	7.5	.....	.....
Minnesota	4.4	4.0	571	571
Mississippi	6.9	9.0	.....	.....
Missouri	7.1	8.1	.....	.....
Montana	4.9	7.8	.....	.....
Nebraska	5.5	4.4	280	280
Nevada	2.3	4.0	.....	.....
New Hampshire	6.6	8.7	.....	.....
New Jersey	8.0	7.5	1,280	0
New Mexico	12.4	4.5	2,554	2,554
New York	8.0	7.2	6,270	6,270
North Carolina	5.4	6.6	.....	.....
North Dakota	3.1	4.0	.....	.....
Ohio	8.9	7.7	3,930	3,930
Oklahoma	6.6	4.0	1,508	1,508

TABLE 5.—AFDC ERROR AND TARGET RATES FOR FISCAL YEAR 1981 AND POTENTIAL DISALLOWANCE AMOUNTS—Continued

	Fiscal year 1981 [1]	Target rate	Potential disallowance amount (thousands)	Post-waiver disallowance amount (thousands)
Oregon	6.8	9.8	.....	
Pennsylvania	9.0	12.2	.....	
Puerto Rico	8.9	6.6	1,714	1,714
Rhode Island	6.3	9.8	.....	
South Carolina	7.8	6.1	1,004	0
South Dakota	4.6	4.5	13	13
Tennessee	8.9	6.0	1,754	1,754
Texas	7.5	5.9	1,112	1,112
Utah	4.9	4.0	300	0
Vermont	5.2	4.3	225	0
Virginia	3.6	9.1	.....	
Washington	9.3	5.8	4,162	4,162
West Virginia	7.4	8.9	.....	
Wisconsin	8.2	8.7	.....	
Wyoming	13.7	4.0	413	413

[1] Weighted; each 6-month error rate is weighted by the percentage of total annual payments that was expended in that period.

Source: Department of Health and Human Services, Family Support Administration, January 1986.

Table 6 presents similar information for fiscal year 1982. States have recently been notified of the potential disallowance and are requesting waivers. Sanctions will not be collected until the moratorium expires.

TABLE 6.—AFDC QUALITY CONTROL: PAYMENT ERROR RATES, TARGET ERROR RATES, AND POTENTIAL DISALLOWANCE AMOUNTS UNDER MICHEL AMENDMENT, FISCAL YEAR 1982

[Dollars in thousands]

State	Payment error rate		Potential disallowance amount
	Fiscal year 1982	Target rate	
U.S. total	6.9	.....	$95,755
Alabama	5.3	5.8	.....
Alaska	12.1	13.1	.....
Arizona	11.6	5.3	1,091
Arkansas	7.0	5.7	323
California	6.0	4.0	27,155
Colorado	6.6	4.1	1,130

TABLE 6.—AFDC QUALITY CONTROL: PAYMENT ERROR RATES, TARGET ERROR RATES, AND POTENTIAL DISALLOWANCE AMOUNTS UNDER MICHEL AMENDMENT, FISCAL YEAR 1982—Continued

[Dollars in thousands]

State	Payment error rate		Potential disallowance amount
	Fiscal year 1982	Target rate	
Connecticut	6.4	5.5	854
Delaware	11.9	8.0	553
District of Columbia	17.1	10.1	3,014
Florida	6.0	4.5	1,783
Georgia	5.1	5.3	.....
Hawaii	8.2	5.7	1,084
Idaho	5.4	4.1	169
Illinois	8.2	8.4	.....
Indiana	3.9	4.0	.....
Iowa	4.5	5.3	.....
Kansas	2.8	4.0	.....
Kentucky	3.6	6.1	.....
Louisiana	6.2	6.4	.....
Maine	4.1	5.7	.....
Maryland	8.2	7.2	1,094
Massachusetts	7.4	8.0	.....
Michigan	8.2	5.7	13,306
Minnesota	3.0	4.0	.....
Mississippi	4.7	6.5	.....
Missouri	4.8	6.0	.....
Montana	2.5	5.9	.....
Nebraska	9.6	4.2	1,521
Nevada	1.3	4.0	.....
New Hampshire	5.9	6.3	.....
New Jersey	7.3	5.8	4,020
New Mexico	10.5	4.3	1,930
New York	8.0	5.6	19,812
North Carolina	3.3	5.3	.....
North Dakota	1.9	4.0	.....
Ohio	7.6	5.8	5,895
Oklahoma	3.8	4.0	.....
Oregon	[1] 6.4	6.9	.....
Pennsylvania	8.5	8.1	1,797
Puerto Rico	8.9	5.3	1,750
Rhode Island	5.7	6.9	.....
South Carolina	8.9	5.0	2,072

TABLE 6.—AFDC QUALITY CONTROL: PAYMENT ERROR RATES, TARGET ERROR RATES, AND POTENTIAL DISALLOWANCE AMOUNTS UNDER MICHEL AMENDMENT, FISCAL YEAR 1982—Continued

[Dollars in thousands]

State	Payment error rate		Potential disallowance amount
	Fiscal year 1982	Target rate	
South Dakota	3.7	4.3	.....
Tennessee	4.9	5.0	.....
Texas	8.4	5.0	2,139
Utah	5.0	4.0	325
Vermont	4.5	4.2	94
Virgin Islands	4.6	6.4	.....
Virginia	4.1	6.6	.....
Washington	6.4	4.9	1,827
West Virginia	8.2	6.4	691
Wisconsin	6.5	6.4	295
Wyoming	4.8	4.0	33

[1] Revised.

Source: Department of Health and Human Services, Family Support Administration, Office of Family Assistance, January 1987.

Types of AFDC Error

Tables 7–9 provide detailed information about the kinds of errors States make in administering the AFDC program. Table 7 shows the major types of error by State. Errors most commonly occur: (1) when determining the countable income of the family and applying the earned income disregards and other requirements related to establishing need and income levels; or (2) when applying basic program requirements—such as verifying age, school attendance, and deprivation—or assuring that procedural requirements are met.

These procedural requirements include noting all social security numbers of family members and filing the paperwork associated with assigning child support rights or registering for WIN. Such paperwork mistakes are known as "technical errors" and are included in the error rate on which fiscal sanctions are based. However, the payment amount does not always change after the technical error is corrected. For example, if a family of three is receiving an AFDC benefit of $325 but is missing one social security number in the file, an error has occurred and the family is ineligible for aid because a basic program requirement has not been met. Once the correct social security number has been inserted in the file, however, the family is eligible for the same $325 payment. Table 8 shows the impact of some of these "technical errors" on the official error rate, using fiscal year 1982 data.

Finally, the official error rate includes both agency and client errors. Table 9 shows the percent of total error cases that can be attributed to either the agency or the client as well as the total number of error cases on which these percentages are based. Agency errors can include simple arithmetical mistakes, incorrect policy applications, and inadequate verification. Client errors may be the result of mistakes in understanding, failure to report information on a timely basis or outright recipient fraud. It is not possible to distinguish between these various causes of error using existing quality control data.

TABLE 7.—MAJOR TYPES OF ERRORS BY STATE, APRIL 1984–SEPTEMBER 1984 PROGRAM AREA IN ERROR, AS A PERCENT OF TOTAL EXPENDITURES IN ERROR [1]

State	Percent of total expenditures in error				
	Basic program requirements [2]	Resources [3]	Income [4]	Need requirements [5]	Other
Total [6]	41.4	11.5	45.2	4.2	1.6
Alabama	30.6	5.8	60.7	NA	3.0
Alaska	40.1	10.3	49.6	NA	NA
Arizona	40.1	4.9	52.2	.9	1.9
Arkansas	24.4	4.9	30.8	NA	1.1
California	51.3	2.4	42.2	3.0	1.1
Colorado	NA	NA	NA	NA	NA
Connecticut	32.0	28.7	37.4	1.9	NA
Delaware	43.3	14.5	42.2	NA	NA
District of Columbia	32.9	1.7	63.7	NA	1.7
Florida	35.3	5.5	55.1	1.6	2.6
Georgia	14.8	1.6	81.1	NA	2.5
Hawaii	55.0	15.8	18.7	8.1	2.4
Idaho	7.6	29.5	54.8	8.1	NA
Illinois	39.9	13.0	47.1	NA	NA
Indiana	22.3	5.5	61.1	8.8	2.3
Iowa	19.6	34.9	36.7	1.3	7.8
Kansas	44.5	19.6	20.9	9.2	5.7
Kentucky	29.9	19.2	45.8	4.3	.9
Lousiana	17.3	4.6	72.2	NA	5.9
Maine	36.7	32.9	28.4	NA	NA
Maryland	37.2	8.5	53.4	NA	.8
Massachusetts	35.4	21.3	41.4	1.7	.3
Michigan	35.8	11.8	35.5	13.7	3.2
Minnesota	39.4	3.8	56.7	NA	NA
Mississippi	21.4	20.1	57.3	NA	1.2
Missouri	10.2	13.6	75.7	NA	.5
Montana	25.3	19.1	45.4	10.2	NA
Nebraska	59.9	NA	37.9	NA	2.2
Nevada	38.4	38.4	23.1	NA	NA

TABLE 7.—MAJOR TYPES OF ERRORS BY STATE, APRIL 1984–SEPTEMBER 1984 PROGRAM AREA IN ERROR, AS A PERCENT OF TOTAL EXPENDITURES IN ERROR [1]—Continued

State	Percent of total expenditures in error				
	Basic program requirements [2]	Resources [3]	Income [4]	Need requirements [5]	Other
New Hamphsire	26.2	10.4	50.5	9.5	3.3
New Jersey	28.8	24.0	46.4	NA	.8
New Mexico	22.5	14.9	46.0	6.0	10.6
New York	45.6	4.9	33.7	12.6	3.3
North Carolina	22.5	31.7	45.9	NA	NA
North Dakota	33.7	24.8	38.4	3.1	NA
Ohio	38.1	18.8	42.5	NA	.6
Oklahoma	31.1	NA	68.9	NA	NA
Oregon	24.7	20.4	53.6	1.2	NA
Pennsylvania	45.6	14.9	38.6	.7	.2
Puerto Rico	37.0	9.9	48.1	4.6	.4
Rhode Island	23.1	41.0	35.6	NA	NA
South Carolina	33.2	4.6	60.2	.2	1.9
South Dakota	15.4	30.3	54.3	NA	NA
Tennessee	27.3	4.1	66.0	NA	2.6
Texas	18.1	NA	80.9	NA	1.0
Utah	49.5	11.0	38.2	1.2	NA
Vermont	33.7	25.2	16.0	18.8	6.3
Virgin Is	36.8	NA	63.2	NA	NA
Virginia [7]	37.7	26.9	35.4	NA	NA
Washington	38.2	13.4	48.1	NA	.3
West Virginia	15.8	32.2	46.0	6.0	NA
Wisconsin	44.3	23.9	30.1	NA	1.7
Wyoming	67.5	NA	27.8	NA	4.7

[1] Includes ineligible and eligible cases receiving incorrect payments.

[2] Basic program requirements: age, school attendance, living with a specified relative, deprivation (incapacity, continued absences, unemployment); WIN program registration, citizenship and alienage, residence, social security number, child support (assignment and cooperation), and monthly report.

[3] Resource items: real property; life insurance; bank deposits or cash on hand; motor vehicle; other.

[4] Income items: earned income, work incentive exemptions; mandatory deductions; work-related expenses; deemed income disregards; RSDI benefits; veterans benefits; unemployment compensation; workmen's compensation; support payment made to IV–D agency contributions; non-earned income disregards; deemed income.

[5] Need requirement items: shelter only, fuel and/or utilities only; basic budgetary allowance(s) other than shelter, fuel and utilities; shelter combined with fuel and/or utilities; shelter and other basic budgetary allowances (excluding fuel and utilities); all basic budgetary allowances (excluding fuel and utilities); all basic budgetary allowances; special diet; transportation; child care; other.

[6] Percentages are weighted by the proportion of each State's average caseload to the national average.

[7] Data incomplete.

Source: Department of Health and Human Services, Family Support Administration, Office of Family Assistance, January 1986.

TABLE 8.—COMPARISON OF OFFICIAL AFDC ERROR RATES WITH PAYMENT ERROR RATES EXCLUDING PROCEDURAL ERRORS, FISCAL YEAR 1982

State	Official error rate	Rate excluding procedural errors [1]	Difference [2]
U.S. total	6.9	5.7	1.2
Alabama	5.3	4.4	0.9
Alaska	12.1	11.8	0.3
Arizona	11.6	10.3	1.3
Arkansas	7.0	6.8	0.2
California	6.0	4.3	1.7
Colorado	6.6	5.6	1.0
Connecticut	6.4	6.0	0.4
Delaware	11.9	9.8	2.0
District of Columbia	17.1	12.9	4.2
Florida	6.0	5.6	0.5
Georgia	5.1	4.9	0.3
Guam			
Hawaii	8.2	7.1	1.1
Idaho	5.4	5.2	0.3
Illinois	8.2	7.1	1.1
Indiana	3.9	3.5	0.4
Iowa	4.5	4.2	0.3
Kansas	2.8	2.7	0.1
Kentucky	3.6	3.0	0.5
Louisiana	6.2	5.6	0.6
Maine	4.1	3.4	0.7
Maryland	8.2	7.2	1.0
Massachusetts	7.4	6.9	0.5
Michigan	8.2	7.5	0.7
Minnesota	3.0	2.8	0.3
Mississippi	4.7	4.6	0.2
Missouri	4.8	4.4	0.4
Montana	2.5	2.5	0.1
Nebraska	9.6	8.7	0.9
Nevada	1.3	1.3	0.0
New Hampshire	5.9	5.7	0.1
New Jersey	7.3	5.3	2.1
New Mexico	10.5	9.7	0.8
New York	8.0	6.6	1.4
North Carolina	3.3	3.0	0.3
North Dakota	1.9	1.9	0.0
Ohio	7.6	5.3	2.3
Oklahoma	3.8	3.3	0.5
Oregon	7.1	5.9	1.1
Pennsylvania	8.5	7.1	1.5
Puerto Rico	8.9	8.3	0.6

TABLE 8.—COMPARISON OF OFFICIAL AFDC ERROR RATES WITH PAYMENT ERROR RATES EXCLUDING PROCEDURAL ERRORS, FISCAL YEAR 1982—Continued

State	Official error rate	Rate excluding procedural errors [1]	Difference [2]
Rhode Island	5.7	4.7	1.0
South Carolina	8.9	7.3	1.6
South Dakota	3.7	3.5	0.2
Tennessee	4.9	3.9	1.0
Texas	8.4	7.6	0.8
Utah	5.0	4.5	0.5
Vermont	4.5	4.4	0.1
Virgin Islands	4.6	3.7	0.8
Virginia	4.1	3.9	0.2
Washington	6.4	6.0	0.4
West Virginia	8.2	6.8	1.4
Wisconsin	6.5	4.6	1.9
Wyoming	4.8	4.5	0.2

[1] Procedural errors include SSN, WIN, and assignment and cooperation of child support rights.
[2] May not add due to rounding.

Source: Department of Health and Human Services, Family Support Administration, Office of Family Assistance.

TABLE 9.—AGENCY AND CLIENT ERRORS, ERROR CASES AS A PERCENT OF TOTAL AFDC ERROR CASES, APRIL–SEPTEMBER 1984 [1]

State	Total number of error cases	Percent of total error cases attributed to [2]—	
		Agency	Client
U.S. total [2]	4,068	55.3	44.7
Alabama	50	36.0	64.0
Alaska	32	65.6	34.4
Arizona	79	48.1	51.9
Arkansas	42	40.5	59.5
California	111	65.8	34.2
Colorado [3]			
Connecticut	70	47.1	52.9
Delaware	21	71.4	28.6
District of Columbia	82	39.0	61.0
Florida	95	44.2	55.8
Georgia	129	46.5	53.5
Guam	32	84.4	15.6
Hawaii	45	53.3	46.7
Idaho	25	52.0	48.0
Illinois	122	51.6	48.4
Indiana	157	65.0	35.0
Iowa	62	64.5	35.5

TABLE 9.—AGENCY AND CLIENT ERRORS, ERROR CASES AS A PERCENT OF TOTAL AFDC ERROR CASES, APRIL–SEPTEMBER 1984 [1]—Continued

State	Total number of error cases	Percent of total error cases attributed to [2]—	
		Agency	Client
Kansas	49	38.8	61.2
Kentucky	84	57.1	42.9
Louisiana	145	49.0	51.0
Maine	29	48.3	51.7
Maryland	103	24.3	75.7
Massachusetts	163	50.9	49.1
Michigan	267	53.6	46.4
Minnesota	60	56.7	43.3
Mississippi	44	43.2	56.8
Missouri [3]			
Montana	18	44.4	55.6
Nebraska	31	74.2	25.8
Nevada	4	75.0	25.0
New Hampshire	33	57.6	42.4
New Jersey	123	35.0	65.0
New Mexico	45	44.4	55.6
New York	283	71.7	28.3
North Carolina	72	54.2	45.8
North Dakota	13	76.9	23.1
Ohio	137	54.7	45.3
Oklahoma	33	54.5	45.5
Oregon	52	53.8	46.2
Pennsylvania	189	58.7	41.3
Puerto Rico	130	60.0	40.0
Rhode Island	23	56.5	43.5
South Carolina	123	44.7	55.3
South Dakota	8	37.5	62.5
Tennessee	83	48.2	51.8
Texas	86	31.4	68.6
Utah	31	48.4	51.6
Vermont	30	80.0	20.0
Virgin Islands	12	41.7	58.3
Virginia	56	66.1	33.9
Washington	103	49.5	50.5
West Virginia	62	48.4	51.6
Wisconsin	179	69.3	30.7
Wyoming	11	72.7	27.3

[1] Includes ineligible and eligible cases receiving incorrect payments.
[2] Percentages weighted by the proportion of each State's average caseload to the National average.
[3] Data incomplete.

Source: Office of Family Assistance, Family Support Administration, January 1986.

APPENDIX M. DESCRIPTION OF OTHER MAJOR FEDERAL ASSISTANCE PROGRAMS NOT WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Several Federal programs outside of the jurisdiction of the Committee on Ways and Means provide benefits to some share of those people who also benefit from assistance programs that are within the jurisdiction of the committee. This appendix describes several such programs: housing assistance; school lunch and breakfast programs; the supplemental food program for Women, Infants, and Children (WIC); assistance provided under the Job Training Partnership Act; Head Start; Low-Income Home Energy Assistance Program (LIHEAP); and Veterans' Benefits and Services Programs.

Most families receiving AFDC would have incomes low enough to qualify them—or particular members of those families—for assistance under these programs. Unlike the principal assistance programs under the jurisdiction of the Committee on Ways and Means, however, participation in these programs is limited either by appropriations, or, in the case of the school feeding programs, by the willingness of schools to participate. Income received from AFDC is counted in determining eligibility for these programs—as well as benefit levels, in some cases. However, because these programs provide in-kind rather than cash assistance, benefits received under these programs are not counted in determining eligibility for AFDC.

Tables 1 and 2 describe the overlap in recipients between programs within the jurisdiction of the Committee on Ways and Means and other major Federal assistance programs. Table 1 illustrates that 81.4 percent of AFDC recipient households also receive food stamps; 15.3 percent receive WIC; 93.2 percent receive medicaid, 49.2 percent received free or reduced-price school meals; and 23.0 percent receive housing assistance of some form.

Table 2 illustrates the reverse. For example, 47.8 percent of food stamp households receive AFDC; 22.9 percent of food stamp households receive SSI; and 3.5 percent of food stamp households receive unemployment compensation benefits.

TABLE 1.—PERCENT OF RECIPIENTS IN PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS RECEIVING ASSISTANCE FROM OTHER MAJOR FEDERAL ASSISTANCE PROGRAMS

[Households, fourth quarter 1984]

	AFDC	SSI	Social Security	Unemployment compensation	Medicare
Number of households receiving benefits (in thousands)	3,585	3,008	23,564	2,240	20,969
Percent receiving:					
Food stamps	81.4	46.5	6.7	9.6	7.1
WIC	15.3	2.5	.5	2.9	.2
Free or reduced-price school meals	49.2	12.7	3.6	15.9	2.0
Public or subsidized rental housing	23.0	21.6	6.2	2.3	6.9
Medicaid	93.2	100.0	10.8	8.4	12.0
VA compensation or pensions	2.8	4.7	8.5	2.6	8.4

Note: Table reads that 81.4 percent of AFDC households, also receive food stamps.

Source: U.S. Bureau of the Census, Current Population Reports, Series P–70, No. 6, Economic Characteristics of Households in the United States: Fourth Quarter 1984.

TABLE 2.—PERCENT OF RECIPIENTS IN OTHER MAJOR FEDERAL ASSISTANCE PROGRAMS RECEIVING ASSISTANCE UNDER PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

[Households, fourth quarter 1984]

	Food stamps	WIC	Free or reduced school meals	Public or subsidized rental housing	Medicaid	VA compensation or pensions
Number of households receiving benefits (in thousands)	6,107	1,259	5,653	3,584	7,211	3,321
Percent receiving:						
AFDC	47.8	43.5	31.2	23.0	46.3	3.0
SSI	22.9	5.9	6.8	18.2	41.7	4.3
Social Security	25.7	8.4	14.9	40.6	35.3	60.1
Unemployment compensation	3.5	5.2	6.3	1.4	2.6	1.7
Medicare	24.3	3.9	7.4	40.3	34.8	53.3

Note: Table reads that 47.8 percent of food stamp recipients receive AFDC.

Source: U.S. Bureau of the Census, Current Population Reports, Series P–70, No. 6, Economic Characteristics of Households in the United States: Fourth Quarter 1984.

Housing Assistance

The Federal Government subsidizes the shelter costs of lower-income households primarily through rental assistance programs

administered by the Department of Housing and Urban Development (HUD)—the Section 8 rental assistance program and public housing. (A small number of households also receives aid under similar programs that are now largely inactive.) The Section 8 and public housing programs both assist primarily families with children and elderly individuals and couples with incomes less than 50 percent of the median income for all families in the area in which they live, although households with incomes up to 80 percent of the area's median are also eligible. Thus, virtually all recipients of AFDC and SSI are eligible for housing assistance. Housing assistance is not available on an entitlement basis, however, and only a relatively small fraction of all eligible households receive aid.

SECTION 8 RENTAL ASSISTANCE

The Section 8 rental assistance program, authorized in 1974, subsidizes the rents of lower income households living in privately owned newly built, rehabilitated, or already-existing physically standard housing. Under most of the program variants, assisted households pay a fixed percentage of their income for shelter—generally 30 percent of income, after certain deductions. The Federal Government pays the owners of the housing the difference between the tenant's contribution and the full market rent, which must be less than HUD-established maximums. (Under the housing voucher program—a variant of the Section 8 existing-housing program—households may rent more costly units, paying the additional expense themselves. Voucher recipients choosing physically standard dwellings that rent for less than the benchmark levels may reduce their shelter costs to less than 30 percent of their incomes.)

PUBLIC HOUSING

Under the public housing program, which was authorized in 1937, the Federal Government pays the full development and financing costs for newly built or rehabilitated rental housing projects that are owned by local housing agencies and made available to lower income households at rental charges comparable to those paid by Section 8 tenants. In addition to covering all development and financing costs, the Federal Government also provides local housing agencies with annual operating subsidies to make up the difference between tenants' rent payments and the expense of maintaining the projects.

RECENT TRENDS IN FUNDING AND PROGRAM COVERAGE

Under current funding practices, each year the Federal Government makes long-term assistance commitments to aid some number of additional low-income households under the Section 8 and public housing programs. The new commitments add to the number of eligible households receiving assistance and contribute to higher Federal outlays for many years to come.

For each of the past 10 years, the Federal Government has made commitments to aid an average of about 170,000 additional households under the Section 8 and public housing programs—ranging from a high of more than 350,000 additional households aided in 1977 to a low of 54,000 additional households assisted in 1983 (see

table 3). As a result of these recent commitments, the total number of low-income households receiving aid under these and predecessor programs has increased sharply, to 4 million households in fiscal year 1986.[1] As a result, outlays for HUD's housing assistance programs grew quickly—from $2.9 billion in fiscal year 1977 to $11.2 billion in 1986.

Despite this growth in program coverage, only a minority of all eligible households receives assistance. Currently, about one-third of all renters with incomes below 50 percent of the local median—the primary target groups for housing aid—is receiving assistance. Fewer than 1 in 10 of all renters with incomes between 50 percent and 80 percent of the area median is receiving housing aid.

TABLE 3.—FUNDING AND PARTICIPATION IN FEDERAL HOUSING ASSISTANCE PROGRAMS

[Dollars in millions]

Fiscal year	Net additional households assisted in the year (in thousands) [1]	Total number of households receiving aid at end of year (in thousands) [2]	Budget authority appropriated to fund additional households assisted [3]	Outlays to fund all households receiving aid during the year [4]
1977	354	2,650	$27,983	$2,928
1978	317	2,818	31,484	3,592
1979	303	3,032	24,396	4,192
1980	188	3,268	26,680	5,331
1981	159	3,297	24,951	6,655
1982	56	3,508	13,275	7,867
1983	54	3,663	8,651	9,308
1984	88	3,860	9,298	9,889
1985	103	3,943	9,932	11,178
1986	[5] 106	[6] 4,058	8,730	11,222

[1] Includes subsidy commitments made under the Section 8 and public housing programs.
[2] Includes households assisted under the Section 8 and public housing programs, as well as those aided under the Section 235 program, the Section 236 program, the Section 221(d)(3)–Below Market Interest Rate program, and rent supplements.
[3] All figures are net of rescissions; the 1986 figure is net of funds sequestered under provisions of the Balanced Budget and Emergency Deficit Control Act of 1985. Figures do not include funds provided under the Rental Rehabilitation and Housing Development Grant Programs.
[4] Includes outlays from the subsidized housing and public housing operating subsidy budget accounts.
[5] Figure does not take account of the deobligation of preliminary subsidy commitments made in earlier years.
[6] Estimate.

Source: Budget documents of the Department of Housing and Urban Development.

School Lunch and Breakfast Programs

The National School Lunch Program (NSLP) and the School Breakfast Program (SBP) provide financial assistance to participating public and private schools that serve meals to children.[2] Each program has a three-tiered reimbursement system that allows children from households with incomes at or below 130 percent of the

[1] This figure includes a small number of households who receive homeownership subsidies.
[2] The NSLP also provides some assistance in the form of commodities.

poverty line to receive free meals, permits children with incomes between 130 percent and 185 percent of poverty to receive meals at a reduced price, and provides a small subsidy for the meals of children with incomes above 185 percent of poverty.[3] Children in AFDC families are automatically eligible to receive free breakfast and lunch, although it is difficult to ascertain what proportion of AFDC children participate in the school meal programs.[4]

The NSLP provides subsidized lunches to children in most schools. During fiscal year 1986, the average daily participation was 23.7 million students, at a total Federal program cost of $3.17 billion (see table 4). In 1985, approximately 89 percent of all elementary and secondary school students were estimated to be in schools that participated in the NSLP; approximately 61 percent of the students in those schools participated in the program. Roughly half of the meals subsidized by the NSLP go to children from low- and moderate-income families; in fiscal year 1986, 42 percent of the children receiving NSLP lunches received free lunches, 7 percent received reduced-price lunches, and the remaining 51 percent paid for their meals.

The SBP serves far fewer students than does the NSLP. In fiscal year 1986, the program had an average daily participation of 3.5 million students, with total Federal program costs of $412 million (See table 5). In 1985, the program was estimated to be available in about 34 percent of all schools, and to serve about 23 percent of the participating schools' enrollment. The SBP also differs from the NSLP in that most of the schools that offer the program are in low-income areas, and the children who participate in the program are predominantly from low- and moderate-income families. In fiscal year 1986, almost 90 percent of the SBP participants received free or reduced-price breakfasts.

TABLE 4.—THE NATIONAL SCHOOL LUNCH PROGRAM: PARTICIPATION AND FEDERAL COSTS, FISCAL YEARS 1977–1986

[Dollars in millions]

Fiscal year	Participation 9 month average (in millions) [1]				Federal costs [4]
	Free meals	Reduced-price meals	Full-price meals [2]	Total [3]	
1977	10.5	1.3	14.5	26.3	$2,111.1
1978	10.3	1.5	14.9	26.7	2,293.6
1979	10.0	1.7	15.3	27.0	2,659.0
1980	10.0	1.9	14.7	26.6	3,051.9
1981	10.6	1.9	13.3	25.8	2,959.5
1982	9.8	1.6	11.5	22.9	2,611.5

[3] For example, in the 1986–1987 school year, the NSLP schools receive federal reimbursements of $1.36, 96 cents, and 13 cents, respectively, for each lunch served to children from these three income categories. An additional 11 cents worth of commodity assistance is mandated for all meals, regardless of the family income of the recipient. The corresponding levels of Federal reimbursement in the SBP are 71 cents, 41 cents, and 10 cents. There is no commodity assistance in the SBP.

[4] Other programs that provide nutritional assistance to children include the Child Care Food Program, the Summer Food Service Program, and the Special Milk Program.

TABLE 4.—THE NATIONAL SCHOOL LUNCH PROGRAM: PARTICIPATION AND FEDERAL COSTS, FISCAL YEARS 1977–1986—Continued

[Dollars in millions]

Fiscal year	Participation 9 month average (in millions) [1]				Federal costs [4]
	Free meals	Reduced-price meals	Full-price meals [2]	Total [3]	
1983	10.3	1.5	11.2	23.0	2,835.5
1984	10.3	1.5	11.5	23.4	2,953.5
1985	9.9	1.6	12.1	23.6	3,045.1
1986	10.0	1.6	12.2	23.7	3,172.6

[1] In order to reflect participation for the actual school year (September through May), these estimates are based on 9 month averages of October through May, plus September, rather than averages of the 12 months of the fiscal year (October through September).

[2] The Federal Government provides a small subsidy for these meals.

[3] Details may not sum to total due to rounding.

[4] Includes cash payments and entitlement commodities, does not include the value of bonus commodities.

Source: U.S. Department of Agriculture, Food and Nutrition Service, "Annual Historical Review of FNS Programs: Fiscal Year 1985 (Revised)" and U.S. Department of Agriculture, Food and Nutrition Service, "Food Program Update for September, 1986," (December 1986).

TABLE 5.—THE SCHOOL BREAKFAST PROGRAM: PARTICIPATION AND FEDERAL COSTS, FISCAL YEARS 1977–1986

[Dollars in millions]

Fiscal year	Participation 9 month average (in millions) [1]				Federal costs
	Free meals	Reduced-price meals	Full-price meals [2]	Total [3]	
1977	2.0	0.1	0.4	2.5	$148.6
1978	2.2	.2	.4	2.8	181.2
1979	2.6	.2	.5	3.3	231.0
1980	2.8	.3	.6	3.6	287.8
1981	3.1	.3	.5	3.8	331.7
1982	2.8	.2	.4	3.3	317.3
1983	2.9	.2	.3	3.4	343.8
1984	2.9	.2	.4	3.4	364.0
1985	2.9	.2	.4	3.4	385.3
1986	2.9	.2	.4	3.5	412.0

[1] In order to reflect participation for the actual school year (September through May), these estimates are based on 9 month averages of October through May, plus September, rather than averages of the 12 months of the fiscal year (October through September).

[2] The Federal Government provides a small subsidy for these meals.

[3] Details may not sum to totals due to rounding.

Source: U.S. Department of Agriculture, Food and Nutrition Service, "Annual Historical Review of FNS Programs: Fiscal Year 1985 (Revised)" and U.S. Department of Agriculture, Food and Nutrition Service, "Food Program Update for September, 1986," (December 1986).

The Supplemental Food Program for Women, Infants, and Children (WIC)

The Supplemental Food Program for Women, Infants, and Children (WIC) provides food assistance and nutritional screening to low-income pregnant and postpartum women and their infants, as well as to low-income children up to age 5. Participants in the program must have incomes below 185 percent of poverty, and must be nutritionally at risk.[5] Under the Child Nutrition Act of 1966, nutritional risk is defined as detectable abnormal nutritional conditions; documented nutritionally-related medical conditions; health-imparing dietary deficiencies; or conditions that predispose people to inadequate nutrition or nutritionally related medical problems.

WIC, which is federally funded, but administered by State and local agencies, does not serve all who are eligible. In fiscal year 1986, Federal costs totaled $1.6 billion and the program served approximately 3.3 million women, infants, and children (see table 6). It is difficult to estimate what proportion of the eligible population this represents, however, primarily because it is not clear how large the eligible population is. While one can estimate the number of women, infants, and children whose incomes are below the maximum level for eligibility in the program, it is not easy to ascertain how many also meet the nutritional risk requirement. In 1983, the program served an estimated 30 percent of the income-eligible women, 45 percent of the income-eligible infants, and 20 percent of the income-eligible children.[6] Some argue that most-low income women and children have either some sort of nutritional deficiency or an inadequate diet that could lead to such a deficiency, and therefore that most of those who are income eligible would also qualify as being nutritionally at risk. Although the extent to which AFDC recipients participate in WIC program is unclear, their incomes are generally below the eligibility cutoffs.

TABLE 6.—THE SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC): PARTICIPATION AND FEDERAL COSTS, FISCAL YEARS 1977–1986

[Dollars in millions]

Fiscal year	Participation (in millions)				Federal costs [2]
	Women	Infants	Children	Total [1]	
1977	165.0	213.0	471.0	848.0	$255.9
1978	240.0	308.0	633.0	1,181.0	379.6
1979	312.0	389.0	782.0	1,483.0	525.4
1980	411.0	507.0	995.0	1,913.0	724.7
1981	446.0	585.0	1,088.0	2,119.0	874.4
1982	478.0	623.0	1,088.0	2,189.0	948.2
1983	542.0	730.0	1,265.0	2,537.0	1,123.1

[5] Although States are free to set their upper income-eligibility limits between 100 percent and 185 percent of poverty, the majority have used 185 percent of poverty as the cutoff.

[6] Congressional Budget Office (CBO) calculations, based on the March 1984 Current Population Survey. Note that these estimates use a cutoff level of 185 percent of poverty—the maximum set by Federal law. Individual State variations in income eligibility guidelines are not, therefore, taken into account.

TABLE 6.—THE SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC): PARTICIPATION AND FEDERAL COSTS, FISCAL YEARS 1977–1986—Continued

[Dollars in millions]

Fiscal year	Participation (in millions)				Federal costs [2]
	Women	Infants	Children	Total [1]	
1984	657.0	825.0	1,563.0	3,045.0	1,386.3
1985	665.0	874.0	1,600.0	3,138.0	[2] 1,488.9
1986	714.0	947.0	1,654.0	3,314.0	[2] 1,588.0

[1] Details may not sum to totals due to rounding.
[2] Includes funding for WIC studies and surveys ($1.7 million in fiscal year 1985 and $2.3 million in fiscal year 1986).

Source: U.S. Department of Agriculture, Food and Nutrition Service, "Annual Historical Review of FNS Progams: Fiscal Year 1985 (Revised)" and U.S. Department of Agriculture, Food and Nutrition Service, "Food Program Update for September 1986," (December 1986).

Job Training Partnership Act

Title II–A of the Job Training Partnership Act of 1982 (JTPA) provides block grants to States to fund training and related services for economically disadvantaged youths and adults. These activities are administered by States and localities, which select participants and design projects within Federal guidelines. (Other titles of the act authorize the Job Corps and summer programs for young people; federally administered programs for Native Americans, migrant and seasonal farm workers, and military veterans; and a program for dislocated workers.)

The aid is intended to increase participants' future employment and earnings and reduce their dependence on welfare. Services authorized under this title include institutional and on-the-job training, job search assistance, counseling, and other work-related assistance. At least 90 percent of the participants must be economically disadvantaged, which is defined as being a member of a family whose total income for the 6-month period prior to application (exclusive of unemployment compensation, child support payments, and welfare payments) does not exceed the higher of the poverty line or 70 percent of the Bureau of Labor Statistics' lower living standard. Members of families receiving Aid to Families With Dependent Children (AFDC) or other cash welfare payments or food stamps are also defined as economically disadvantaged.

The act requires program operators to serve AFDC recipients at least in proportion to their share in the eligible population. Since the program was implemented in 1983, about one-fifth of the participants in activities authorized by Title II–A were AFDC recipients at the time that they enrolled—21 percent, for example, in program year 1984 (July 1984–June 1985).

In fiscal year 1987, about $1.8 billion is expected to be spent for JTPA II–A grants, providing training and other services to about 1.1 million participants. Annual outlays have ranged between $1.5 billion and $2.3 billion since JTPA was enacted. Under its predeces-

sor, the Comprehensive Employment and Training Act (CETA), grants included funds for public service employment as well as training and were considerably larger.

Head Start

Head Start began operating in 1965 under the general authority of the Economic Opportunity Act of 1964. Head Start provides a wide range of services to low-income children and their families in the context of a preschool child care program. Its goals are diverse and include both helping the children and their families with their present circumstances and lessening the disadvantages faced subsequently by many such children in school and work. The services provided include child care with a developmental orientation; physical, dental, and mental health services (including screening and immunizations); and nutritional and social services. Parental involvement is extensive, through both volunteer participation and employment of parents as Head Start staff. Formal training and certification as child care workers is provided to some parents through the Child Development Associate program.

Head Start primarily serves children between the ages of three and five and their families. The program's eligibility guidelines require that at least 90 percent of the children served come from families with incomes at or below the poverty line; furthermore, at least 10 percent of the children must be handicapped. Most children in AFDC families should be eligible for Head Start, although it is not known how many participate in or have access to the program. In fiscal year 1986, approximately 450,000 children—about 18 percent of 3- to 5-year-old children living in poor families—were served in full-year Head Start programs, at a total Federal cost of $1 billion.[7] Only about one-fifth of those served were in full-day programs (more than 6 hours per day).

Low-Income Home Energy Assistance Program (LIHEAP)

The Low-Income Home Energy Assistance Program (LIHEAP) was originally created by Title III of the Crude Oil Windfall Profit Tax Act of 1980 (P.L. 96–223). The purpose of LIHEAP is to help low-income households meet their energy-related expenses. In fiscal year 1981, $1.85 billion was appropriated for the program.

In 1981, title XXVI of the Omnibus Budget Reconciliation Act (OBRA) (Public Law 97–45), the Low-Income Home Energy Assistance Act of 1981, authorized the Secretary of Health and Human Services to make LIHEAP allotments to States for fiscal years 1982–1984. The Act permitted States to provide three types of energy assistance. States can: (1) help eligible households pay their home heating or cooling bills, (2) use up to 15 percent of their LIHEAP allotment for low-cost weatherization, and (3) provide assistance to households during energy-related emergencies.

The Human Services Reauthorization Act of 1984 (Public Law 98–558) amended the Low-Income Home Energy Assistance Act of 1981 and authorized appropriations for fiscal years 1985 and 1986.

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[7] If Head Start programs are enrolling the maximum number of nonpoor children permitted, the proportion of poor children served would be about 16 percent.

Appropriations for fiscal years 1982 through 1984 were $1.875, $1.975, and $2.075 billion, respectively. Public Law 98–619 appropriated $2.1 billion for fiscal year 1985. Public Law 99–178 appropriated $2.1 billion for fiscal year 1986.[8]

The Human Services Reauthorization Act of 1986, Public Law 99–425, amended the Act and extended the appropriations authorization through fiscal year 1990. Authorized appropriations levels are: $2.050 billion for fiscal year 1987; $2.132 billion for fiscal year 1988; $2.218 billion for fiscal year 1989; and $2.307 billion for fiscal year 1990. The appropriation for fiscal year 1987 is $1.825 billion.

ALLOTMENTS TO STATES AND TERRITORIES

States may transfer up to 10 percent of their LIHEAP allotment to one or any combination of the block grants for community services, title XX social services, preventive health and health services, primary health care, and maternal and child health services. A State's decision to transfer part of its allotment to a block grant does not affect its subsequent fiscal year allotment. The maximum amount of LIHEAP funds that a State can carry over to the next fiscal year is 15 percent. This provision applies to a State's allotment after adjustments have been made for tribal set aside and transfers to block grants. States must explain why funds are held over until the next fiscal year and what types of assistance the funds will provide. The amount carried over does not affect the State's subsequent fiscal year allocation. Amounts above 15 percent that are not spent by the State must be reallocated by the Secretary of Health and Human Services.

Table 7 shows State allotments beginning in 1981 and table 8 illustrates number of households receiving heating assistance, average heating benefit and total dollars spent on heating assistance.

ELIGIBILITY AND TYPES OF ASSISTANCE

States have considerable discretion to determine eligibility criteria for LIHEAP and the types of energy assistance to be provided. At State option, LIHEAP payments can be made to households, based on categorical eligibility, where one or more persons are receiving: Supplemental Security Income, Aid to Families with Dependent Children, Veterans' Pensions, or Dependency and Indemnity Compensation. States can also elect to make payments to households with incomes that are less than 150 percent of the Federal proverty income guidelines or 60 percent of the State's median income, whichever is greater. Individuals who are denied benefits are entitled to a fair administrative hearing, except with regard to weatherization programs. The term "household" is defined as any individual or group of individuals who are living together as one economic unit and for whom residential energy is customarily purchased in common, or who make undesignated payments for energy in the form of rent. States cannot establish an income eligibility ceiling that is below 110 percent of the poverty level. States also are prohibited from treating categorically eligible and income eligi-

[8] The Balanced and Emergency Deficit Control Act of 1985, as reaffirmed by Public Law 99–366, required the cancellation of $90.3 million of fiscal year 1986 budget authority.

ble households differently with respect to LIHEAP. Further, LIHEAP benefits cannot be used to calculate income or resources, or affect benefits, under Federal or State law, including public assistance programs.

States are required to give assurances that the largest benefits go to those households that have the lowest income and highest energy costs relative to their income. In addition, States are to conduct outreach activities aimed at making households with elderly or handicapped individuals aware that energy assistance is available. These outreach services include: toll-free information hotlines, special application periods, transportation to LIHEAP application offices, and home visits. Section 607(a) of Public Law 98–558 directs the Department of Health and Human Services to collect annual data, including information on the number of LIHEAP households in which at least one household member is 60 years old or handicapped.

States also have considerable discretion in the methods they have available to provide assistance to eligible households. Methods that are used, vary by State and program. A list of methods that are used includes cash payments, vendor payments, two-party checks, vouchers/coupons, and payments directly to landlords. When paying home energy suppliers directly, States are required to give assurances that suppliers will charge the eligible households the difference between the amount of the assistance and the actual cost of home energy. Also, States may use Federal funds to provide tax credits to energy suppliers who supply home energy to low-income households at reduced rates.

Tables 7 presents State allotments. Table 8 presents the number of households assisted and average benefits received for the hearing assistance portion of the program.

PLANNING AND ADMINISTRATION

States are required to submit an application for funds to the Secretary of Health and Human Services. As part of the annual application, the chief executive officer of the State is required to make several assurances related to eligibility requirements, anticipated use of funds, as well as to satisfy planning and administrative requirements. States are prohibited from using more than 10 percent of their total LIHEAP allotment for planning and administrative costs.

States must provide for public participation and public hearings in the development of the State plan, including making it, and any revisions, available for public inspection and allowing public comment on the plan. Public Law 98–558 requires States to engage an independent person or organization to prepare an audit at least once every two years. The law also contains two other related provisions. First, the Comptroller General is directed to evaluate, at least once every three years, if a State's LIHEAP expenditures are consistent with law. Second, the Department of Health and Human Services is to develop regulations to prevent waste, fraud, and abuse in LIHEAP.

TABLE 7.—LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM STATE ALLOTMENTS

[In thousands of dollars]

States	Fiscal year—				
	1981 [1]	1984 [2]	1985 [2]	1986 [3]	1987 [4]
Alabama	15,674	17,725	18,234	17,718	15,651
Alaska	7,505	7,034	7,247	10,815	9,990
Arizona	6,426	7,802	8,150	8,569	7,569
Arkansas	11,960	13,584	13,973	13,520	11,943
California	84,088	95,204	97,894	95,051	83,963
Colorado	29,319	33,299	33,299	31,692	29,275
Connecticut	38,247	43,440	43,440	41,344	38,191
Delaware	5,077	5,766	5,931	5,732	5,069
District of Columbia	5,940	6,746	6,940	6,437	5,931
Florida	25,921	28,163	28,970	28,035	24,765
Georgia	19,609	22,271	22,910	22,166	19,580
Hawaii	1,975	2,243	2,243	2,135	1,972
Idaho	11,181	12,877	12,877	12,362	11,419
Illinois	105,862	120,233	123,679	116,214	105,706
Indiana	47,431	54,438	55,371	52,207	47,861
Iowa	29,470	38,581	38,581	36,720	33,919
Kansas	15,515	17,704	18,211	17,286	15,577
Kentucky	24,943	28,329	29,141	28,187	24,906
Louisiana	16,024	18,166	18,867	18,106	16,001
Maine	27,513	27,905	27,914	26,784	24,742
Maryland	29,285	33,261	34,214	33,104	29,242
Massachusetts	82,707	86,877	86,878	82,701	76,394
Michigan	111,598	114,081	113,951	110,067	100,358
Minnesota	72,409	82,239	82,239	78,271	72,302
Mississippi	13,930	15,246	15,683	15,190	13,418
Missouri	37,885	48,026	48,026	47,784	42,223
Montana	11,350	12,298	12,298	14,500	13,394
Nebraska	13,799	19,071	19,032	18,159	16,774
Nevada	3,560	4,036	4,151	4,024	3,555
New Hampshire	14,481	16,447	16,447	15,654	14,460
New Jersey	71,025	80,563	82,849	80,261	70,920
New Mexico	8,867	9,882	9,973	10,724	9,476
New York	231,907	263,291	263,291	250,683	231,565
North Carolina	34,561	39,253	40,378	39,067	34,510
North Dakota	7,995	14,530	14,612	15,751	14,550
Ohio	93,651	106,364	109,413	105,829	93,512
Oklahoma	15,998	15,558	16,004	16,286	14,387
Oregon	22,723	25,808	25,808	24,563	22,690
Pennsylvania	124,568	141,479	141,479	134,653	124,385

TABLE 7.—LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM STATE ALLOTMENTS—Continued

[In thousands of dollars]

States	Fiscal year—				
	1981 [1]	1984 [2]	1985 [2]	1986 [3]	1987 [4]
Rhode Island	12,594	14,220	14,220	13,613	12,575
South Carolina	13,822	14,138	14,544	14,072	12,430
South Dakota	10,241	11,168	11,434	12,793	11,817
Tennessee	25,267	28,697	29,520	28,561	25,230
Texas	41,261	46,862	48,206	46,641	41,200
Utah	13,289	14,827	14,827	14,727	13,604
Vermont	10,854	12,328	12,328	11,733	10,838
Virginia	39,019	40,516	41,677	39,907	35,620
Washington	33,104	40,847	40,896	40,403	37,321
West Virginia	16,507	18,748	19,285	17,934	16,483
Wisconsin	61,679	74,027	74,027	70,456	65,083
Wyoming	3,561	6,195	6,195	5,897	5,447
U.S. total	1,813,177	2,052,395	2,077,577	2,005,093	1,819,797

[1] Includes reallocation of funds and crisis intervention funds but excludes payments to Indian tribal organizations. Source: Low Income Energy Assistance Program; Report to Congress for Fiscal Year 1981; U.S. Department of Health and Human Services.

[2] Excludes payments to Indian tribal organizations. Column does not add to total due to rounding Source: U.S. Department of Health and Human Services, January 1985.

[3] State's final fiscal year 1986 allotments after reduction of $90.2 million required under Public Law 99–177 plus reallotment of $251,579 in fiscal year 1985 funds. Excludes payments to Indian tribal organizations. Column does not add to total due to rounding. Source: U.S. Department of Health and Human Services, January 1987.

[4] Excludes payments to Indian tribal organizations. Column does not add to total due to rounding. Source: U.S. Department of Health and Human Services, January 1987.

TABLE 8.—HEATING ASSISTANCE BENEFITS, NUMBER OF HOUSEHOLDS ASSISTED, AND AVERAGE BENEFIT BY STATE

[Fiscal year 1986]

State	Heating assistance benefits (in thousands)	Estimated number of households assisted for fiscal year 1986	Estimated average benefit (in dollars)
Total	$1,366,669	6,534,209	NA
Alabama	8,555	98,214	$101
Alaska	5,143	11,300	435
Arizona	[1] 3,539	36,000	128
Arkansas	8,000	73,381	108
California	[1] 59,480	[5] 419,496	141

TABLE 8.—HEATING ASSISTANCE BENEFITS, NUMBER OF HOUSEHOLDS ASSISTED, AND AVERAGE BENEFIT BY STATE—Continued

[Fiscal year 1986]

State	Heating assistance benefits (in thousands)	Estimated number of households assisted for fiscal year 1986	Estimated average benefit (in dollars)
Colorado	22,252	63,500	380
Connecticut	39,502	77,916	668
Delaware	4,594	13,194	350
District of Columbia	[1] 5,151	14,000	303
Florida	17,781	172,600	103
Georgia	16,842	110,000	160
Hawaii	1,388	3,958	360
Idaho	9,403	41,200	220
Illinois	83,050	400,000	226
Indiana	46,567	151,271	308
Iowa	31,000	115,000	264
Kansas	10,762	46,855	230
Kentucky	15,249	120,600	126
Louisiana	4,000	37,733	101
Maine	18,768	60,182	315
Maryland	27,716	93,887	295
Massachusetts	[2] 78,818	[6] 140,586	564
Michigan	39,800	287,000	134
Minnesota	57,000	130,415	430
Mississippi	10,937	64,000	179
Missouri	31,047	141,135	223
Montana	9,400	23,000	404
Nebraska	12,291	36,597	335
Nevada	2,083	13,000	200
New Hampshire	11,412	25,426	449
New Jersey	55,000	176,427	328
New Mexico	8,699	55,171	194
New York	190,390	1,029,000	229
North Carolina	25,898	177,388	147
North Dakota	9,697	18,469	494
Ohio	59,052	395,712	148
Oklahoma	10,578	79,664	140
Oregon	15,463	79,506	197
Pennsylvania	91,749	397,323	209
Rhode Island	9,779	28,946	338

TABLE 8.—HEATING ASSISTANCE BENEFITS, NUMBER OF HOUSEHOLDS ASSISTED, AND AVERAGE BENEFIT BY STATE—Continued

[Fiscal year 1986]

State	Heating assistance benefits (in thousands)	Estimated number of households assisted for fiscal year 1986	Estimated average benefit (in dollars)
South Carolina	10,213	89,403	117
South Dakota	8,534	24,124	339
Tennessee	18,298	76,780	238
Texas	20,054	315,000	63
Utah	12,577	46,000	275
Vermont	8,408	19,500	431
Virginia	35,232	114,483	309
Washington	[3] 18,061	85,000	162
West Virginia	10,445	73,572	142
Wisconsin	[4] 52,698	216,795	243
Wyoming	4,314	14,500	312

[1] Benefits for heating and cooling assistance combined.
[2] Excludes $2.7 million in State funds to provide energy assistance to non-LIHEAP households (i.e., 1 and 2 person households with incomes between 150 to 175 percent of poverty.)
[3] If household did not receive fuel assistance in the winter, such households could receive fuel assistance in the summer if there were at least 3 consecutive days of 90 or more degrees and if funds were available.
[4] Includes $1.7 million in State and Federal matching funds to serve AFDC households under Title IV–A.
[5] Actual number of households assisted through date of August 1986 telephone survey.
[6] Excludes 8,921 1 and 2 person non-LIHEAP households assisted with State funds.

Sources: Heating Assistance Benefits: U.S. Department of Health and Human Services "Low Income Energy Assistance Information Memorandum." Transmittal No. FSA–IM–87–1.
Estimated Number of Households Assisted and Estimated Average Benefit: Data compiled from telephone interviews with State offices in August 1986 by the Department of Health and Human Services.

Veterans' Benefits and Services

The Veterans Administration (VA) offers a wide range of benefits and services to eligible veterans, members of their families, and survivors of deceased veterans. The VA programs include veterans compensation and veterans pensions—the main cash-assistance entitlement programs—readjustment and rehabilitation benefits, education and job training programs, medical care services, and the housing and loan guaranty programs. Also, the VA provides life insurace, burial benefits, and special counseling and outreach programs. In fiscal year 1986, Federal outlays for veterans' benefits and services were $26.5 billion.

VETERANS COMPENSATION AND VETERANS PENSIONS

Service-connected compensation is paid to veterans who have incurred injuries or illnesses while in service. The amounts of the monthly payments are determined by disability ratings that are

based on presumed average reductions in earnings capacities caused by the disabilities. Disability ratings generally range from 10 percent to 100 percent in 10-percent intervals; multiple injuries may result in combined-degree ratings, however, and some injuries are compensable at a zero-percent rating. Death compensation or dependency and indemnity compensation is paid to survivors of veterans who died as a result of service-connected causes. In 1986, about 2.2 million disabled veterans and 330,000 survivors received $10.4 billion in compensation payments.

Veterans pensions are means-tested cash benefits paid to war veterans who are age 65 or older or who have become permanently and totally disabled from non-service-connected causes, and to survivors of war veterans. Based on family sizes, the pensions provide a floor of income: the basic benefit before subtracting other income sources is $7,811 in 1987 for a veteran with one dependent ($5,963 for a veteran living alone). Somewhat less generous benefits are available to survivors; a surviving spouse with no children could receive two-thirds of the basic benefit amount given a single veteran. About 1.4 million persons received $3.9 billion in veterans pension payments in 1986.

READJUSTMENT, EDUCATION, AND TRAINING BENEFITS

Several Veterans Administration programs support readjustment, education, and job training for veterans and military personnel who meet certain eligibility criteria. The largest of these programs are the Vietnam-era GI bill, the post-Vietnam-era education program, and the All-Volunteer Force educational assistance test program. Each program covers veterans of specific service-enrollment periods, and provides specific educational and vocational benefits, ranging from college courses to on-the-job training. The post-Vietnam-era education program (closed for new enrollments after March 1987) is funded by the Department of Defense appropriations and only administered by the VA. The job training program established in 1983 by the Emergency Veterans' Job Training Act provides payments to defray training costs of employers who hire certain wartime veterans who have been unemployed for long periods of time. Net outlays from the VA account in 1986 for all education and training programs came to $530 million.

MEDICAL PROGRAMS

The VA provides inpatient and outpatient medical and health-related services, and operates 172 hospital centers, 118 nursing homes, 16 domiciliaries, and 229 outpatient clinics. The VA extends free priority care to service-connected disabled veterans, to veterans in special categories, and to needy veterans—in 1986, those with incomes below $15,000 ($18,000 for a veteran with one dependent). As facilities and other resources permit, the VA gives no-cost care to other non-service-connected veterans with incomes below $20,000 (about $25,000 for a veteran with one dependent). Medical care for higher income veterans requires copayments, and is available as long as resources permit. VA-operated nursing home care is augmented by VA-supported care under contract in private com-

munity nursing homes and with per diem payments for veterans in State-run homes for veterans.

The VA operates a nationwide health system. In 1986, the VA received approximately 2.9 million applications for care; about 1.3 million hospital patients and 100,500 nursing home and domiciliary patients were treated; and 20.2 million outpatient visits were provided. Construction and modernization of facilities, as well as medical research and training programs, are also funded through VA appropriations. In 1986, VA medical programs cost the Federal Government $9.9 billion (see table 9).

TABLE 9.—EXPENDITURES AND NUMBER OF RECIPIENTS OF VETERANS BENEFITS AND SERVICES, FOR SELECTED FISCAL YEARS [1]

Fiscal year	Compensation and pensions	Readjustment, education, job training	Medical programs [2]	Housing and loans
	Outlays (in billions of dollars)			
1975	7.4	4.6	3.7	([3])
1980	11.0	2.3	6.5	([3])
1981	12.2	2.3	7.0	0.2
1982	13.2	1.9	7.5	0.1
1983	13.7	1.6	8.3	([3])
1984	13.8	1.4	8.9	0.2
1985	14.1	1.1	9.5	0.2
1986	14.3	0.5	9.9	0.1
	Recipients (in thousands)			
1975	4,855	2,804	1,985	293
1980	4,646	1,228	2,670	308
1981	4,535	1,073	2,765	188
1982	4,407	900	2,720	103
1983	4,286	755	2,935	245
1984	4,123	629	3,025	252
1985	4,005	491	2,965	179
1986	3,950	388	2,940	314

[1] The major programs funded through the Veterans Administration are included in the table; outlays for other, smaller programs, as well as general operating expenses, are not included. Outlays are net of receipts.

[2] Medical program expenditure data include outlays for direct medical services, medical research and training, and construction programs. Recipients are the number of applicants for all types of medical care during the year.

[3] Spending in this category was less than $50 million.

Source: Veterans Administration, Annual Report of the Administrator of Veterans Affairs, for selected years; Office of Management and Budget, Budget of the United States Government, for selected years.

HOUSING AND LOAN PROGRAMS

The VA supports veterans housing through VA-guaranteed loans and direct loan programs. In the loan guaranty program, mortgage credit needs of veterans and service personnel may be satisfied by

private lenders on more liberal terms than would be generally available to nonveterans. The Federal Government's guaranty replaces substantial down payments and other investment safeguards used by conventional mortgagers. In the event of foreclosure, the guaranty protects lenders against losses up to a maximum of the lesser of 60 percent of the mortgage amount or $27,500. To offset some of the costs of servicing the loans, a user fee equal to 1 percent of the mortgage amount is required. In 1986, the VA guaranteed about 314,000 such loans and expended $0.2 million for administration and handling of default loans.

Special direct loans are made to certain totally disabled veterans in connection with grants to assist them in acquiring suitable housing. Other loans may be established for the purchase of VA-owned properties or for small cash advances that would cover items such as taxes or household repairs. Direct housing loans were authorized in 1950 when it was believed that veterans' access to private lenders was limited, particularly in rural areas. Only six such loans were processed for severely disabled veterans in 1986.

TRENDS IN USE AND COSTS

Veterans programs are undergoing shifts in the demand for costs of services as a result of changing demographics and eligibility. The veteran population as a whole is decreasing in numbers—from about 29.5 million in 1975 to 27.7 million in 1986—but the number of veterans over 65 is increasing rapidly—from about 2.2 million in 1975 to about 5.5 million in 1986 to an expected 7.2 million veterans by 1990. The use and costs of medical care, for example, are expected to grow more rapidly over the next several years than those of other veterans' benefits and services, unless constrained by discretionary appropriations. Compensation and pension caseloads ard decreasing steadily due to beneficiaries, deaths, terminations, excess incomes, and age limitations for dependents. In addition, GI bill participation is declining as more veterans reach the delimiting period when eligibility ceases.

Cost-of-living adjustments have been made annually to veterans compensation and veterans pensions, which accounts for the increasing expenditures over time as enrollments decreased. Spending for medical care programs, which had been growing at an average annual rate of 12 percent before 1980, have increased by 7 percent annually in recent years.

PART 2

TRUST FUNDS (OR SPECIAL FUNDS) WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Section 1. Black Lung Disability Trust Fund
Section 2. Airport and Airway Trust Fund
Section 3. Highway Trust Fund
Section 4. Aquatic Resources Trust Fund
Section 5. Harbor Maintenance Trust Fund
Section 6. Inland Waterways Trust Fund
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Section 11. Wildlife Restoration Projects
Section 12. Reforestation Trust Fund
Section 13. Deep Seabed Revenue Sharing Trust Fund
Section 14. Tax Court Judges Survivors Annuity Fund
Section 15. Railroad Retirement System
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Section 1. Black Lung Disability Trust Fund

Legislative History and Jurisdiction

National attention was focused on the working conditions of coal miners following a West Virginia coal mine accident in 1968 that killed 78 workers. Congressional hearings the following year on reform of the coal mine safety laws also examined the problems of coal workers' pneumoconiosis, or black lung disease. The Federal Coal Mine Health and Safety Act of 1969 established Federal minimum standards for mines in order to protect the safety and health of coal miners. In addition, title IV of the act provided benefits for miners totally disabled by black lung disease and for dependents of miners who had died from the disease or were totally disabled from the disease at death.

The 1969 act was the first effort, at any level of government, to provide benefits exclusively to the victims of a single occupational disease. This was also the first time the Federal Government took major responsibility in the traditionally State-administered area of workers' compensation. The 1969 act was amended by the Black Lung Benefits Act of 1972, the Black Lung Benefits Reform Act of 1977, the Black Lung Revenue Act of 1977, and the Black Lung Benefits Revenue Act of 1981. Most recently, Public Law 99-272 made certain changes regarding the financing of benefits.

The statutory provisions of the act as amended are contained in 30 U.S.C. sections 901 et seq. and in the Internal Revenue Code of 1954 sections 4121, 4218, 4951, 4952, 4953, and 9501, et seq.

There are two distinct programs of black lung benefits under title IV: part B and part C. The part B program is financed by Federal general revenues and is administered by the Social Security Administration (SSA). Benefits under part B are payable only for claims filed on or before June 30, 1973, (December 31, 1973, in the case of survivors) and thus no new beneficiaries can be added to the rolls. The part C program is administered by the Department of Labor (DOL) and generally applies to claims filed after June 30, 1973. Benefits under part C are paid either by the "responsible" coal mine operator or by the Black Lung Disability Trust Fund.

The Black Lung Disability Trust Fund was created in 1978 pursuant to the Black Lung Benefits Revenue Act of 1977 (Public Law 95-227). In 1981, the statutory provisions of the Black Lung Disability Trust Fund were transferred to the Internal Revenue Code by the Black Lung Benefits Revenue Act of 1981 (Public Law 97-119). The 1981 act, and the 1986 Consolidated Omnibus Budget Reconciliation Act (Public Law 99-272), revised provisions governing the Trust Fund's Finances (i.e., excise tax rates on coal and interest on the debts owed by the Trust Fund).

The Committee on Ways and Means has jurisdiction over the excise tax on coal, the structure and administration of the Black

Lung Disability Trust Fund, the expenditure purposes of the Trust Fund and tax provisions as to the coal mine operators' self-insurance trusts. The Committee on Education and Labor has jurisdiction over eligibility and evidentiary standards, claims adjudication, and related benefit provisions.

Benefit Structure

Generally, the Black Lung Disability Trust Fund ("Trust Fund") is required to pay benefits with respect to part C claims (claims filed *after* June 30, 1973) in which the miner's last coal mine employment was *before* January 1, 1970. Part B claims (claims filed on or *before* June 30, 1973) are generally paid by the Social Security Administration out of the general revenues of the Treasury, not the Trust Fund. If a miner's last coal mine employment was *after* January 1, 1970, and the claim was filed *after* June 30, 1973, benefits are paid by the coal mine operator judged to be responsible, the so-called "responsible operator," not the Trust Fund. However, the Trust Fund pays benefits if there is no responsible operator among the miner's employers or if the responsible operator is in default. Under the Black Lung Benefits Revenue Act of 1981, liability for certain claims which had been denied prior to March 1, 1978, but which were reviewed and approved under the liberalized eligibility criteria of the Black Lung Benefits Reform Act of 1977, was also transferred to the Trust Fund. When an operator is determined to be responsible for the payment of benefits which in fact have been paid out of the Trust Fund, then the operator is obligated to reimburse the Trust Fund for those amounts plus interest.

The expenses of the Department of Labor and the administrative expenses of the Department of Health and Human Services for the claims program financed through the Trust Fund are paid out of the trust fund monies. The Trust Fund also bears the cost of its own administration as well as the costs of administering the collection of the excise tax on coal.

A claim under part B or C must meet three general conditions in order to be approved for black lung disability benefits: (1) the miner must have (or, if deceased, have had) pneumoconiosis; (2) the miner must be totally disabled by the disease (or must have been totally disabled at the time of death); and (3) the pneumoconiosis must have arisen out of coal mine employment. There are certain statutory presumptions that are used to establish eligibility.

TABLE 1.—NUMBER OF PART C BENEFICIARIES [1]

[Calendar years 1979, 1980, 1983, 1984, September 1985, and 1986]

Class of beneficiary	1980	1983	1984	1985	1986
Primary beneficiaries:					
Miners	52,922	64,203	62,785	61,401	59,014
Widows	26,739	35,188	36,495	37,559	38,896
Others	1,189	809	854	882	925
Total primary beneficiaries	80,850	100,200	100,134	99,842	98,835
Dependents of primary beneficiaries	58,223	62,557	62,982	61,010	58,566
All beneficiaries	139,073	162,757	163,116	160,852	157,401

[1] Does not include those part B beneficiaries whose medical benefits are paid under part C. Includes cases (10,000 in 1986) where payment has been suspended and where a responsible coal mine operator is paying benefits.

Source: Department of Labor.

TABLE 2.—NUMBER OF PART B BENEFICIARIES

[December 1974–80, September 1983, 1984, 1985, and 1986]

Class of beneficiary	1974	1980	1983	1984	1985	1986
Miners	169,097	120,235	95,587	87,385	79,443	71,849
Widows	134,700	146,603	143,449	141,382	138,902	135,738
Others	183,419	132,639	99,349	89,163	80,476	72,144
Total	487,216	399,477	338,385	317,930	298,821	279,731

Source: Social Security Bulletin.

The basic monthly benefit for a miner totally disabled from black lung or a survivor is 37½ percent of the monthly pay of a Federal employee in grade GS–2, step 1. A totally disabled miner or survivor with one dependent receives the basic monthly benefit rate increased by 50 percent. If the miner or survivor has two dependents, the benefit rate is increased by 75 percent, and if there are three or more dependents, the rate is increased by 100 percent. Benefit rates are revised each year to reflect any revision in Federal pay scales. The monthly rates as of January 1987 were:

Miner or one survivor—$338.
Miner or survivor with one dependent—$507.
Miner or survivor with two dependents—$591.50.
Miner or survivor with three or more dependents—$676.

Black lung benefits are not taxed by the Federal Government, although States may do so.

Reductions in black lung benefits or the offset of black lung benefits against other benefits are subject to significantly different rules depending upon whether the benefits are paid under part B or part C. Under part B, black lung benefits are reduced by any payments received under the workers' compensation, unemployment compensation or disability insurance laws of a State if such

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payments are for death or disability due to pneumoconiosis. If the State payments are made for reasons other than pneumoconiosis, black lung benefits are not reduced. Part C benefits are reduced for State or Federal workers' compensation (but *not* for unemployment compensation or disability insurance) in the same manner.

Under part B, miners or their parents, brothers or sisters (but not their spouse or children) have always been subject to an earnings test which causes their black lung benefits to be reduced as defined in section 203 of the Social Security Act (the same earnings test for social security recipients). This excess earnings offset does *not* apply to benefits payable under part C, unless the claim for benefits was filed on or after January 1, 1982.

Under part B, black lung benefits are not considered workers' compensation payments and therefore are not considered in calculating any social security disability payments under Title II of the Social Security Act. However under part C, exactly the opposite is the case, and black lung benefits must be taken into account.

Survivor benefits under the black lung program are not reduced as a result of social security survivor benefits.

A miner (but not a miner's family or survivors) receiving black lung cash benefits is eligible for medical and rehabilitation benefits including treatment and/or medications prescribed for the miner's black lung disease and directly associated illnesses. Medical costs are paid either by a responsible coal mine operator or by the Trust Fund, whichever is responsible for payment of regular monthly benefits.

Financing Mechanism

A manufacturers' excise tax is imposed on domestically mined coal (other than lignite) which is sold or used by the producer (Internal Revenue Code sections 4121 and 4218). Prior to 1982, the rate of tax was lesser of (1) 50 cents per ton for coal from underground mines and 25 cents per ton for coal from surface mines, or (2) 2 percent of the price for which the coal was sold. Under 1981 amendments (Public Law 97–119), the rate of tax was doubled to the lesser of (1) $1 per ton for coal from underground mines and 50 cents per ton for coal from surface mines, or (2) 4 percent of the price for which the coal is sold. These higher rates were to revert to the pre-1982 rates on January 1, 1996, or earlier if the Black Lung Disability Trust Fund became solvent (i.e., if the Trust Fund had paid off debts owed the Federal Treasury).

In 1986, the tax rates were increased to their current level: the lesser of (1) $1.10 per ton for coal from underground mines and 55 cents per ton for coal from surface mines, or (2) 4.4 percent of the price for which the coal is sold. As with the earlier tax rates, the current rates (enacted in Public Law 99–272) are to revert to pre-1982 rates on January 1, 1996, or earlier if the Black Lung Disability Trust Fund becomes solvent.

Amounts equal to the revenues from this excise tax (plus any revenues from the penalty tax on taxable expenditures from a coal mine operator self-insurance trust, described below) are automatically appropriated to the Black Lung Disability Trust Fund, for payment of benefits and other Trust Fund expenses.

A responsible operator may fund its liability for black lung benefits through deductible contributions to a qualified tax-exempt trust (code section 501(c)(21)), called coal mine operators' self-insurance trusts. Misuse of a trust due to self-dealing (code section 4951) and expenditures for an improper purpose (code section 4953), trigger certain penalty excise taxes. Amounts collected under these provisions, which in the past have been very small, are appropriated to the Black Lung Disability Trust Fund.

Financial Status of Trust Fund

The Trust Fund has been operating at a deficit since its establishment in 1978. As of fiscal year 1986, the Trust Fund has paid nearly $5 billion in cash benefits and medical expenses, along with approximately $330 million in administrative costs. It also has accumulated over $1 billion in interest charges. At the same time, the excise tax on coal has generated only approximately $3.5 billion in revenues leaving a cumulative deficit of $2.9 billion through fiscal year 1986. This deficit has been financed with advances from the general revenues of the U.S. Treasury. These advances must be repaid from future Trust Fund revenues. Through fiscal year 1985, interest on the cummulative advances to the Trust Fund was also due. However, Public Law 99-272 forgave Trust Fund interest payments for fiscal years 1986 through 1990. This, along with the 10-percent increase in tax rates (discussed above) and reduced benefit spending, substantially reduced the Trust Fund's borrowing (advance from the general fund) in fiscal year 1986.

Table 3 shows the status of the Trust Fund as of the end of fiscal year 1986.

TABLE 3.—STATUS OF BLACK LUNG DISABILITY TRUST FUND

[In thousands of dollars]

Fiscal year	Income			Outgo		
	Coal tonnage tax	Interest	Advances from general fund	Benefit payments	Administrative expenses	Interest on advances
Actual:						
1978	92,050	1,192	18,925	76,797	35,346	.....
1979	221,614	122	400,809	582,038	32,149	7,740
1980	272,262	.....	535,837	721,746	34,238	52,497
1981	236,635	.....	554,778	644,288	35,585	109,488
1982	490,746	254	283,002	578,244	35,789	160,597
1983	493,685	321	357,773	623,129	34,936	193,273
1984	518,464	450	346,063	594,213	36,551	234,503
1985	581,390	573	335,545	583,422	40,229	274,751
1986	[1] 547,251	1,594	51,271	573,939	44,439	NA
Total	3,454,097	4,506	2,884,003	4,977,816	329,262	1,032,849

[1] Reflects inter-year adjustment. Actual coal tax revenues for 1985 were $561,746,000. For 1986, actual tax revenues totalled $566,845,000.

NA—Not applicable; interest forgiven.

Source: Fourth Annual Report on the Financial Condition and Results of Operations of the Black Lung Disability Trust Fund (Department of Treasury, September 30, 1981), and Budget of the U.S. Government, Appendixes for fiscal years 1984, 1985, 1986, 1987, and 1988.

Section 2. Airport and Airway Trust Fund

Legislative History

1970 Act and 1971 Amendment

The Airport and Airway Trust Fund was established as of July 1, 1970, by the Airport and Airway Revenue Act of 1970 (Title II of the Airport and Airway Development Act of 1970, Public Law 91-258). The 1970 Act provided that new and increased aviation user taxes were to be deposited into the Trust Fund and, with interest earned on the deposits, were to be available to meet specified airport and airway obligations of the United States incurred under Title I of the 1970 Act, as it was in effect on the date of enactment. Amounts in the Trust Fund were available for making specified expenditures, as provided in appropriations acts, until July 1, 1980.

The 1970 Act authorized Trust Fund expenditures for the maintenance and operation of air navigation facilities, qualified airport planning and construction purposes, airway facilities and equipment, research and development, safety, and related departmental administrative expenses. However, a 1971 amendment (Public Law 92-174) to Title I of the 1970 Act removed the authority for spending Trust Fund monies for maintenance and operation of the airway system. This amendment also limited the authority for meeting administrative costs from the Trust Fund to only such administrative expenses related to the remaining authorized purposes.

1973 Amendment

A 1973 amendment (Public Law 93-44) to Title I of the 1970 Act increased the authorization levels for airport grants for fiscal years 1974 and 1975, increased the Federal share for certain airport grants and safety and security equipment costs, and amended the definition of airport development to specifically include security equipment required under regulations of the Department of Transportation.

1976 Amendment

The Airport and Airway Development Act Amendments of 1976 (Public Law 94-353) further amended Title I of the 1970 Act to include several additional expenditure categories to be authorized from the Trust Fund. The new expenditure categories were: snow removal equipment; noise suppressing equipment; construction of physical barriers and landscaping for the purpose of reducing the effect of aircraft noise in areas adjacent to public airports; acquisition of land or property interest for airport noise control purposes; airport terminal development (the public, nonrevenue-producing areas, including baggage facilities and passenger moving equip-

ment); and specified amounts for maintenance of airway facilities. Thus, the 1971 prohibition against authorizing airway operating and maintenance costs from the Trust Fund was partially removed by the 1976 amendment. In addition, the 1976 amendment provided authorization levels for airport grants and other existing Trust Fund expenditure programs through fiscal year 1980, and increased the Federal share for certain airport grants for fiscal years 1977 and 1978.

The Committee on Ways and Means offered a Committee amendment as Title III to the 1976 Act Amendments which amended the Trust Fund language to conform it to the authorization provisions approved by the Committee on Public Works and Transportation and to permit expenditures from the Fund to be made until October 1, 1980 (instead of July 1, 1980). The Committee on Ways and Means initially declined to allow expenditures from the Trust Fund for terminal facilities; however, this expenditure purpose was eventually approved by a separate vote of the House.

1979 Amendment

The Aviation Safety and Noise Abatement Act of 1979 (Public Law 96–193) further amended Title I of the 1970 Act to authorize Trust Fund appropriations for airport noise compatibility planning programs and airport noise compatibility grants and to increase the airport development authorization amounts for fiscal year 1980. In addition, the Act amended the Trust Fund language (section 208(f)(1)(A) of the Airport and Airway Revenue Act of 1970; 49 U.S.C. 1742(f)(1)(A)) to conform to the 1979 amendments.

1980 Amendment

In 1980, Public Law 96–298 was enacted to extend the aviation excise taxes and require the deposit of the revenues from these taxes into the Trust Fund from July 1, 1980 until October 1, 1980. In 1980, the Committee on Ways and Means also reported the Airport and Airway Revenue Act of 1980 as a Committee amendment, to be offered as Title II to H.R. 6721, in order to extend aviation excise taxes and the Trust Fund until October 1, 1985. However, the bill was not considered by the House prior to the adjournment of the 96th Congress. As a result, expenditures from the Trust Fund were not authorized after September 30, 1980; further, on October 1 many of the aviation excise taxes automatically expired or were reduced, and the deposit of the remaining aviation excise tax revenues into the Trust Fund was terminated.

1981 Amendment

In 1981, the Committee on Ways and Means approved a technical and conforming amendment to the Trust Fund provisions in order to allow expenditures to be made from the Trust Fund through September 30, 1981. The Committee amendment was included in H.R. 4182, the fiscal year 1981 Airport Development Authorization Act, which was approved by the House in July 1981. The provisions of H.R. 4182 were later enacted as part of the Omnibus Budget Reconciliation Act of 1981, Public Law 97–35.

Also in 1981, the House Committee on Public Works and Transportation approved H.R. 2643 to set funding levels for airport and

airway programs for fiscal years 1982 and 1983. At the adjournment of the first session of the 97th Congress, a financing title for the bill was pending in the Committee on Ways and Means.

1982 Amendment

On May 12, 1982, the Committee on Ways and Means reported H.R. 4800 as a financing title for H.R. 2643; the bill extended and reinstated various aviation excise taxes and the Airport and Airway Trust Fund for the period July 1, 1982, through December 31, 1983.

Title V of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) contained the provisions of the Airport and Airway Improvement Act of 1982, authorizing spending out of the Trust Fund for airport programs at higher levels over the period fiscal years 1982 through 1987. Aviation excise tax provisions (similar to those in H.R. 4800) were also included in title III of TEFRA to raise sufficient revenue to fund the airport and airway spending authorized in title V of the Act. The various aviation excise taxes were extended and reinstated, some at higher tax rates, for the period September 1, 1982, through December 31, 1987 (see following table). Three modifications were made in the passenger ticket tax and an exemption was provided from the fuel and ticket taxes for helicopters used in timber operations or hard mineral exploration or development where the Federal aviation system and Federal-aid airports are not utilized. The Airport and Airway Trust Fund was extended through fiscal year 1987 and its expenditure purposes were updated to include the changes made in title V. (Adjustments in certain of the airport and airway spending programs were subsequently made in H.R. 6211 (P.L 97-424), and conforming cross references in the Trust Fund provisions were also included.) The Trust Fund provisions were also transferred to the Internal Revenue Code, effective September 1, 1982.

1984 Amendment

The Deficit Reduction Act of 1984 (Public Law 98-369) expanded the previous exemptions from the aircraft fuels and air transportation taxes for helicopters not using federally aided airports or Federal airway facilities to include helicopters employed in the exploration and development of oil and gas (effective on April 1, 1984).

Financing Mechanism

The Airport and Airway Trust Fund is financed by several aviation excise taxes. As noted above, these excise taxes were reimposed or increased in TEFRA of 1982. Generally these taxes are the same as in effect before October 1, 1980, except that the aviation fuel taxes are now at higher rates. The following table sets forth the taxes and rates under prior law and those presently in effect:

TABLE 1.—SCHEDULE OF AIRPORT AND AIRWAY TRUST FUND EXCISE TAXES

Tax (and code section)	Prior law (July 1, 1970–Oct. 1, 1980) rate	Rate Oct. 1, 1980–Aug. 31, 1982	Present law rate (Sept. 1, 1982–Dec. 31, 1987)
Air passenger ticket tax (sec. 4261(a), (b) and (d)).[1] [2]	8 percent	5 percent	8 percent.
Air freight waybill tax (sec. 4271).	5 percent	0	5 percent.
International departure tax (sec. 4261(c)).	$3 per person	0	$3 per person.
Fuels tax for noncommercial (general) aviation (sec. 4041(c)).[2]	7 cents per gallon.	[3] 4 cents per gallon.	12 cents per gallon on gasoline; 14 cents per gallon on other fuels.
Aircraft use tax [2]	([4])	0	0.
Aircraft tires tax (sec. 4071)	5 cents per pound.	4.875 cents per pound.	[5] 4.875 cents per pound.
Aircraft tubes tax (sec. 4071)	10 cents per pound.	10 cents per pound.	[5] 10 cents per pound.

[1] Air transportation between the United States and a foreign station which is not more than 225 miles from the nearest point in the continental United States, as well as between two such foreign stations, generally is subject to this tax where payment for the travel is made in the United States. The 1982 amendments permit the Secretary to waive the 225-mile zone rule if Canada or Mexico enter into a "qualified agreement". This tax does not apply to transportation between the United States and other foreign stations where payment is made outside the United States, nor does it apply to the U.S. portions of certain uninterrupted international air transportation (where the layover does not exceed 12 hours). Also, the air passenger ticket tax does not apply to the portion of flights to or from Alaska and Hawaii which are not made over the United States (Code sec. 4262).

[2] The tax does not apply to aircraft owned by a tax-exempt museum operated exclusively for the procurement, care, and exhibition of World War II aircraft (defined in sec. 4041(h)). Certain helicopters are exempt under the 1982 and 1984 amendments.

[3] The 7 cents a gallon tax on jet fuel expired on October 1, 1980; the 4 cents a gallon tax applied only to aviation gasoline from Oct. 1, 1980 through August 31, 1982.

[4] An annual tax of two parts: (1) a $25 annual per plane tax, plus (2) a weight tax of 3½ cents per pound for turbine-power (jet) aircraft and 2 cents per pound for nonturbine-powered aircraft for each pound in excess of 2,500 pounds of "maximum certificated takeoff weight." However, for the period July 1, 1980–September 30, 1980, the use tax was one-fourth the applicable annual rates.

[5] Under the provisions of H.R. 6211 (PL 97–424), the taxes on inner tubes and non-highway tires were repealed, effective Jan. 1, 1984.

The passenger ticket tax applies to air passenger transportation within the United States, while the $3 per passenger international departure tax applies to flights abroad beginning in the United States and to flights to and from Alaska and Hawaii. The freight waybill tax applies to the transportation of property by air which begins and ends in the United States. Aircraft not subject to these passenger or freight taxes are subject to the fuel taxes noted above; exemptions are provided for aviation fuels used on farms or used for farming purposes or by a State or local government or a nonprofit educational organization. Also, under the 1982 and 1984 Acts, certain helicopters are exempt from the fuels and ticket taxes if used in timber or hard mineral operations or oil and gas explora-

tion or development where the Federal aviation system and Federal-aid airports are not used.

Expenditure Purposes

The present Trust Fund statute authorizes obligations incurred under Title I of the 1970 Act, under the 1976 Act Amendments, under the 1979 Act amendments, under the Fiscal Year 1981 Authorization Act, or under the Airport and Airway Improvement Act of 1982, as such Acts were in effect on the date of enactment of the 1982 Act.

The Airport and Airway Trust Fund expenditure programs authorized under present law are generally as follows:

1. *Airport Development Aid Program (ADAP)*—

(a) *Airport planning*—Grants to planning agencies for airport system planning and public agencies for airport master planning; also, airport noise compatibility planning grants for air carrier airports eligible for terminal development costs.

(b) *Airport construction*—Construction, improvement or repair of a public airport (includes removal of airport hazards and construction of physical barriers and landscaping to diminish noise).

(c) *Airport terminal facilities*—Non-revenue-producing public-use areas which are directly related to movement of passengers and baggage at certificated air carrier airports having required safety and security equipment (include baggage facilities and passenger-moving equipment); does not include costs of construction of public parking facility for passenger automobiles or costs of construction, alteration, or repair of a hanger or any airport building unless used to house facilities or activities directly related to safety of persons at the airport. These facilities include multimodal terminal development and bond retirement for certain airports.

(d) *Land acquisition*—Includes land or property interests for airport noise control purposes.

(e) *Airport-related equipment*—Airport security equipment required by DOT regulations, snow removal equipment, noise suppressing equipment, navigation aids, and safety equipment required for airport certification.

(f) *Airport noise compatibility programs*—Includes soundproofing of public buildings; local governmental units are eligible for project grants as well as airports.

2. *Facilities and Equipment Program (F&E)*—Costs of acquiring, establishing, and improving air navigation facilities.

3. *Research, Engineering, Development, and Demonstration Program (R&D)*—Projects in connection with FAA research and development activities.

4. *Operations and Maintenance Programs (O&M)*—Flight check and maintenance of air navigation facilities; services provided under international agreements relating to the U.S. share of joint provision of air navigation services.

5. *Other costs*—Certain airline costs of international passenger security screening facilities.

Miscellaneous

The Secretary of the Treasury is required to report to the Congress each year on the financial condition of the Trust Fund.

The Committee on Public Works and Transportation has jurisdiction over airport and airway development and improvement programs.

The statutory provisions establishing the Airport and Airway Trust Fund and governing its operations are located at section 9502 of the Internal Revenue Code.

Financial Status of Trust Fund

Table 2 is based on the Department of the Treasury's Annual Reports on the Trust Fund and the Appendix to the U.S. Budget for fiscal years 1979–1988, and it sets forth the Fund's receipts and outlays for fiscal years 1971 through 1988.

Table 2 also contains cash balances in the Trust Fund at the end of each fiscal year since 1971. However, it must be noted that large portions of the unexpended balance are committed to liquidate outstanding unfunded obligations and unexpended appropriations. Table 3 sets forth the balances remaining in the Fund after these commitments have been taken into account, called the uncommitted balances, for fiscal years 1977 through 1988.

TABLE 2.—STATUS OF AIRPORT AND AIRWAY TRUST FUND, FISCAL YEARS 1971 THROUGH 1988

[In millions of dollars]

Fiscal year	Receipts				Outlays	Cash balance in the fund [2]
	Excise taxes, net	Interest on investments	Other [1]	Total		
1971	563	.....	621	1,184	287	897
1972	649	.....	902	1,551	1,389	1,058
1973	758	.....	69	828	699	1,187
1974	840	28	.....	868	521	1,534
1975	962	96	.....	1,058	579	2,013
1976	938	146	.....	1,084	547	2,550
T.Q	277	1	.....	278	92	2,736
1977	1,191	194	.....	1,384	853	3,268
1978	1,326	219	.....	1,545	1,115	3,698
1979	1,526	282	.....	1,809	1,114	4,392
1980	1,874	400	.....	2,274	1,224	5,442
1981	21	561	.....	582	1,306	4,719
1982	133	542	.....	674	1,512	3,882
1983	2,165	533	.....	2,698	1,792	4,787
1984	2,499	546	.....	3,045	1,392	6,441
1985	2,852	746	.....	3,598	2,613	7,426
1986	2,735	829	.....	3,564	2,365	8,625
1987 (estimate)	3,126	803	.....	3,929	2,576	9,978

TABLE 2.—STATUS OF AIRPORT AND AIRWAY TRUST FUND, FISCAL YEARS 1971 THROUGH 1988—Continued

[In millions of dollars]

Fiscal year	Receipts				Outlays	Cash balance in the fund [2]
	Excise taxes, net	Interest on investments	Other [1]	Total		
1988 (estimate)	3,450	750	.....	4,200	4,522	9,656

[1] Amounts appropriated from the general fund and unexpended balances of certain general fund accounts transferred to the Trust Fund.

[2] Large portions of the unexpended balance are committed to liquidate outstanding unfunded obligations (contract authority) and to liquidate unexpended appropriations. Also, funds equivalent to cumulative shortfalls below minimum annual obligation levels must be reserved for future expenditure.

Source: Appendix to the U.S. Budget for Fiscal Year 1988.

TABLE 3.—AIRPORT AND AIRWAY TRUST FUND UNCOMMITTED BALANCES—FISCAL YEARS 1977 THROUGH 1988

Uncommitted balance end of fiscal year	Millions of dollars
1977	1,709
1978	2,182
1979	2,742
1980	3,686
1981	3,021
1982	2,156
1983	1,882
1984	2,234
1985	2,039
1986	4,312
1987 (estimate)	5,631
1988 (estimate)	4,868

Source: Appendix to the U.S. Budget for Fiscal Year 1988.

Section 3. Highway Trust Fund

Legislative History

Development of the Trust Fund and Highway Tax Revenue Sources

The Highway Trust Fund was established in 1956 (Public Law 84–627) for a 16-year period to provide a specific source of financing for the new Interstate System and continuation of other Federal aid-highway programs. The other highway-aid programs previously had been financed through the general fund. The 1956 legislation increased certain highway user taxes, primarily the taxes on motor fuels (from 2 cents a gallon to 3 cents a gallon), and imposed a new highway user tax on heavy highway motor vehicles. Initially, the Trust Fund was financed by the proceeds of the following highway user excise taxes: the manufacturers' taxes on gasoline for highway use, and tires, tubes, and tread rubber for highway use; a portion of the manufacturers' tax on trucks and buses (20 percent for 1957 and 50 percent thereafter, until changed to 100 percent by 1961 legislation); the tax on use of heavy highway motor vehicles; and the retailers' tax on diesel and special motor fuels for highway use.[1]

Section 209(b) of the Highway Revenue Act of 1956 included a declaration of congressional policy that (1) if it appears that the total receipts of the Trust Fund will be less than the total expenditures from the Trust Fund, or (2) if it appears that the distribution of the tax burden among the various classes of highway users or other beneficiaries of the highways is not equitable, then Congress is to enact legislation to bring about a balance of total Trust Fund receipts and expenditures or to make an equitable distribution of the tax burden. In addition, the 1956 Act provided for a 3-year highway cost allocation study (later extended for 2 additional

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[1] The Airport and Airway Revenue Act of 1970 created the Airport and Airway Trust Fund and deposited into it the manufacturers' and retailers' taxes on aviation gasoline, the manufacturers' taxes on tires and tubes of the types used on aircraft, and the retailers' taxes on aviation fuel, as well as the taxes on transportation of persons and property by air and on use of civil aircraft.

The Land and Water Conservation Act of 1965 created the Land and Water Conservation Fund and required that the taxes on special fuels and gasoline used as motorboat fuel be transferred to that fund from the Highway Trust Fund. In addition, P.L. 96–451 authorized transfers up to $20 million per year for fiscal years 1981–1983 of revenues from the motorboat fuel taxes to the National Recreational Boating Safety and Facilities Improvement Fund. This amount was increased to $45 million in the Highway Revenue Act of 1982, through fiscal year 1988. The Deficit Reduction Act of 1984 made the fund a separate account (Boating Safety Account) within the Aquatic Resources Trust Fund.

The manufacturers' excise taxes on lubricating oil for highway use and truck and bus parts were transferred into the Trust Fund as the result of 1966 legislation.

The Revenue Act of 1971 repealed the tax on trucks and buses with gross vehicle weight of 10,000 pounds or less.

The Energy Act of 1978 repealed the manufacturers' tax on buses as well as the excise taxes on bus parts, tires and tubes, tread rubber and lubricating oil.

Further changes were made in the Highway Trust Fund taxes in the Highway Revenue Act of 1982 and in the Deficit Reduction Act of 1984.

years) to determine the fair distribution of highway-related user taxes among the various users.

Section 209(g) of the Highway Revenue Act of 1956 also contained a provision—the "Byrd Amendment"—to prevent the Trust Fund from reaching a deficit position. In general, this provision required that if Trust Fund balances and estimated future receipts would be inadequate to cover obligations as they become due, a reduction of the Interstate System authorization in an amount sufficient to eliminate the difference would be required.

In 1959, the tax on motor fuels was temporarily increased for 1960 and 1961 from 3 cents a gallon to 4 cents a gallon in order to finance the authorized level of Trust Fund spending. The 4-cent rate was then extended in 1961 for the life of the Trust Fund (June 30, 1972, at that time). The 1961 legislation also increased the tax rates on tires, tubes and tread rubber, doubled the tax on heavy trucks, and transferred the entire 10-percent excise tax on trucks and buses to the Trust Fund (previously, only one-half of this tax went into the Trust Fund).[2] In addition, the 1961 Act extended the Highway Trust Fund for 3 months, from June 30, 1972, to September 30, 1972, again to provide additional revenues to meet projected highway program costs.

Highway legislation in 1966 also transferred the revenues from the existing manufacturers' excise taxes on lubricating oil and truck and bus parts to the Highway Trust Fund. Thus, with respect to the highway-related excise taxes, only the tax on automobiles did not go into the Trust Fund. (The 7-percent excise tax on automobiles was later repealed by the Revenue Act of 1971.)

Subsequent Extensions of Highway Trust Fund

The Highway Trust Fund and the related highway user taxes have been extended four times since 1961: a 5-year extension in the Federal-Aid Highway Act of 1970 (from September 30, 1972, through September 30, 1977), a 2-year extension in the Federal-Aid Highway Act of 1976 (through September 30, 1979), a 5-year extension in the Surface Transportation Assistance Act of 1978 (through September 30, 1984) and a 4-year extension in the Surface Transportation Assistance Act of 1982 (through September 30, 1988). The extensions, prior to 1982, were added by the Committee on Ways and Means as a separate title to a highway authorization bill of the Committee on Public Works and Transportation and involved only the extensions of existing highway user excise taxes and tax rates. (See reference to 1982 Act below).

In the 1978 Act, the operation of the "Byrd Amendment" was modified to require that when anticipated revenues are insufficient to cover expenditures, reductions will be made on a pro rata basis to all apportioned highway funds, rather than to interstate apportionments only (sec. 209(g) of the Highway Revenue Act of 1956). In addition, an exemption from the fuels taxes was provided for fuels used by qualified taxicabs until the end of 1980 (later extended as a 4-cents-per-gallon exemption until October 1, 1985 and further extended through September 30, 1988 by the Tax Reform Act of

[2] The 1961 Act also repealed a scheduled transfer to the Trust Fund of one-half the 10-percent excise tax on automobiles.

1986). Finally, two studies were required: a cost allocation study was required to be conducted by the Department of Transportation with a final report to Congress by January 15, 1982, and a study of the highway excise tax structure was required to be conducted by the Department of Treasury with a final report to Congress by April 15, 1982.[3]

Highway Revenue Act of 1982

The highway user taxes and trust fund provisions were substantially revised in the Surface Transportation Assistance Act of 1982 (H.R. 6211), Public Law 97–424. Titles I and II of the Act contained authorizations for highway programs at higher levels for four fiscal years, 1983 through 1986. Accordingly, Title V, the Highway Revenue Act of 1982, extended and revised the highway user taxes and the Trust Fund for an additional 4 years, through September 30, 1988 (see following table). Those taxes and the Trust Fund are terminated on October 1, 1988.

In revising and extending the Highway Trust Fund, its provisions were codified in the Internal Revenue Code (section 9503), effective January 1, 1983. Eligible Trust Fund expenditure purposes were revised to include spending authorized under the 1982 Act. Further, the anti-deficit provision ("Byrd amendment") was revised to reduce apportionments when unfunded authorizations exceed estimated receipts for the following 24-month period. Trust Fund estimates are required quarterly.

The 1982 Act increased the amount of revenue (from the motorboat fuels taxes) that can be transferred to the Boating Safety Fund from $20 million to $45 million per year. This fund was also extended through fiscal year 1988.

The Act established a new Mass Transit Account, within the Highway Trust Fund, financed from the revenue equivalent of 1 cent of the 9 cents per gallon tax on fuels. Amounts in the Mass Transit Account are available for making capital expenditures authorized under section 21(a)(2) of the Urban Mass Transportation Act. An anti-deficit provision similar to that described above for the Highway Trust Fund, also is to be applied except that unfunded authorizations may not exceed estimated receipts for the following 12 months.

Deficit Reduction Act of 1984

The Deficit Reduction Act of 1984 (Public Law 98–369) revised several of the specific taxes imposed under the 1982 Act. These modifications are noted in the footnotes to table 1.

Financing Mechanism

The highway excise taxes deposited into the Highway Trust Fund, as revised under the 1982 and 1984 Acts and in effect until October 1, 1988, are set forth in the following table, in comparison with prior law (pre-1983). Special effective dates are set forth in the footnotes.

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[3] The 1978 amendments were contained in Title V, the Highway Revenue Act of 1978, of the 1978 Surface Transportation Assistance Act (P.L. 95–599). The highway cost allocation study was submitted in May 1982 and the highway excise tax structure study was submitted in December 1982.

TABLE 1.—HIGHWAY EXCISE TAX RATES UNDER PRESENT AND PRIOR LAW

Tax	Prior (pre-1983) rate	Present (1982 and 1984 Acts) rate*
Gasoline (manufacturers)	4 cents per gallon	9 cents per gallon.[1]
Diesel fuel (retail)	4 cents per gallon	15 cents per gallon.[2]
Other motor fuels (retail)	4 cents per gallon	9 cents per gallon.[1]
Lubricating oil (manufacturers)	6 cents per gallon	No tax.[3]
Trucks and trailers (manufacturers) retail.	10 percent of manufacturers sale price.	12 percent of retail sale price.[4]
Truck parts and accessories (manufacturers).	8 percent of manufacturers sale price.	No tax.[3]
Tires (manufacturers)	Highway—9.75 cents per pound [5] Nonhighway—4.875 cents per pound.[5] Laminated—1 cent per pound.[5]	Graduated rates on highway tires over 40 pounds; no tax on other tires.[5]
Innertubes (manufacturers)	10 cents per pound	No tax.[5]
Tread rubber	5 cents per pound	No tax.[5]
Annual use tax on heavy trucks	$3 per 1,000 pounds, if GVW exceeds 26,000 pounds.[6]	55,000-up $100 plus $22 per 1,000 pounds in excess of 55,000 (maximum $550).[6]

*These excise taxes expire on Oct. 1, 1988.

[1] Effective April 1, 1983.

[2] The 1984 Act increased the tax from 9 cents per gallon to 15 cents per gallon, effective July 1, 1984. Owners of vehicles with a gross vehicle weight of 10,000 pounds or less are allowed an advanced rebate equal to an average estimated extra tax (above 9 cents per gallon) to be paid over the life of the vehicle.

[3] Effective January 7, 1983.

[4] Under the 1982 Act, this tax will not apply to trucks under 33,000 pounds or trailers under 26,000 pounds, effective Jan. 7, 1983. Roadtrailer trailers are exempt from the tax under the 1982 Act. The tax is reduced to 6 percent in the case of piggyback trailers and semitrailers sold from July 18, 1984, through July 17, 1985. The rate increase on trucks and trailers subject to the tax and the shift to the retail level are effective Apr. 1, 1983.

[5] Effective Jan. 1, 1984, the 1982 Act repealed the taxes on inner tubes, tread rubber, and all tires other than highway tires weighing over 40 pounds. The tax on these highway tires is 15 cents per pound in excess of 40 pounds for tires between 40 and 70 pounds; $4.50 plus 30 cents per pound on the excess from 70 to 90 pounds; and $10.50 plus 50 cents per pound on the excess over 90 pounds.

[6] Effective July 1, 1984. The 1982 Act would have converted the tax to a graduated rate schedule based on taxable gross weight. However, the 1984 Act reduced the heavy vehicle use tax and increased the diesel fuel tax. The tax rate is reduced by 25 percent for logging vehicles that are used exclusively to haul harvested forested products to and from the forested site and are required to be registered for that purpose. An exemption is provided for vehicles which are used on the highways for 5,000 miles or less during the year. The exemption is increased to 7,500 miles for State-registered agricultural vehicles which haul farm commodities to or from the farm. The tax is prorated where vehicles are destroyed or stolen during the year. The tax is also prorated when the vehicle is initially placed in service after the first month of the taxable year.

Under present law, exemptions from the fuels taxes are provided for fuel used on a farm or for farming purposes, and fuel used in intercity, local or school buses. An exemption of 4 cents per gallon of the tax on fuel used by qualified taxicabs is provided through September 30, 1988.[4] The 1982 Act also provided a full exemption for off-highway business use and for certain alcohol fuels. The exemption for gasohol was increased from 4 cents to 5 cents per gallon under the 1982 Act, and to 6 cents per gallon under the 1984 Act, effective from January 1, 1985, through December 31, 1992. In addition, buses are exempt from the 12-percent tax on trucks and trailers, and intercity, local and school buses are exempt from the taxes on tires, tubes, and tread rubber.[5] General exemptions are provided from these excise taxes for State and local governments and tax-exempt educational organizations. A 6 cents per gallon exemption from the excise tax on special motor fuels is provided

[4] Under the 1982 Act, the fuel tax exemption for qualified taxicabs was extended from December 31, 1982 to September 30, 1984, and certain taxicabs were made eligible for the exemption for 1983 only (e.g., taxicabs prevented by local law from offering ridesharing). The 1984 Act extended the exemption through September 30, 1985. The Tax Reform Act of 1986 extended the exemption through Sept. 30, 1988.

[5] These exemptions for buses were adopted in the Energy Act of 1978 (Public Law 95–618) and extended in the 1982 Act. As noted earlier, the taxes on inner tubes and tread rubber are repealed effective January 1, 1984.

through 1992 for neat methanol and ethanol fuels which are not derived from petroleum or natural gas.[6] A 4½ cents exemption is provided if the fuels are derived from natural gas. Neat alcohol fuels are at least 85 percent methanol, ethanol and other alcohol. All exemptions (except gasohol) will terminate when the taxes expire on October 1, 1988.

Expenditures Purposes

Highway related programs

The statutory provisions governing expenditures from the Highway Trust Fund were revised in the 1982 Act to provide that amounts in the Trust Fund are to be available through September 30, 1988, as provided in appropriation acts, for meeting obligations incurred which are authorized by law to be paid out of the Trust Fund under the Highway Revenue Act of 1956, under Title I or II of the Surface Transportation Assistance Act of 1982, or thereafter, amounts for a general purpose authorized under these Acts as of December 31, 1982. As a result, the Trust Fund expenditure purposes are quite broad and include funding for:

—Federal-aid highways, including the interstate system, primary and secondary systems, urban systems, forest and public lands highways, scenic highways, overseas highways, etc.;
—Interstate resurfacing and repair;
—Bridge replacement;
—Highway safety research and development;
—Highway-related safety grants;
—Traffic control demonstration grants;
—Traffic control signal demonstration projects;
—Intermodal urban demonstration projects and mass transit grants;
—Carpools and vanpools grants;
—National Highway Traffic Safety Administration for a share of traffic safety programs; and
—Certain administrative costs of FHWA and NHTSA.

Mass Transit Account

The 1982 Act established a new Mass Transit Account within the Highway Trust Fund, consisting of the revenue equivalent to 1 cent per gallon of the tax on fuels and interest earnings on amounts in the account. Amounts are available through September 30, 1988, as provided in appropriation acts, for making capital expenditures under section 21(a)(2) of the Urban Mass Transportation Act of 1964 (including new projects).

Transfers to the Land and Water Conservation Fund and Boating Safety Account of the Aquatic Resources Trust Fund

Revenues equivalent to the 9 cents per gallon tax on fuels used in motorboats are transferred to these two funds through fiscal year 1988: up to $45 million per year is to be transferred to the Boating Safety Account so long as the fund balance does not exceed

[6] The Tax Reform Act of 1986 reduced the 9-cents-per-gallon exemption to 6 cents per gallon effective for sales or use after December 31, 1986.

$45 million, with the balance (not to exceed $1 million per fiscal year) to the Land and Water Conservation Fund. (See separate discussion of these funds in sections 4 and 7 following.)

Miscellaneous

The Secretary of the Treasury is required to report to the Congress each year on the financial condition of the Trust Fund. In addition, the Deficit Reduction Act of 1984 directs the Secretary of Transportation, in consultation with the Secretary of the Treasury, to conduct studies of the highway use tax and to report to the Congress by October 1, 1987. The studies relate to (1) whether vehicles of 80,000 pounds or more bear their fair share of the costs of the highway system, (2) the significance of the use tax for trans-border trucking operations, and (3) the feasibility of weight-distance truck taxes. The 1984 Act directs the Secretary of the Treasury to conduct a study of the effectiveness of the partial tax exemption for fuels used in qualified taxicabs and to report to the Congress with recommendations by January 2, 1985. In addition, the 1984 Act requires the Secretary of Transportation to report to the Congress by May 2, 1985, on the appropriate application and level of the excise tax on piggyback trailers. Neither report has been received before publication of this document.

The Committee on Public Works and Transportation has jurisdiction over the highway and mass transit spending programs.

The statutory provisions establishing the Trust Fund and governing its operations are located at section 9503 of the Internal Revenue Code.

Financial Status of Trust Fund

Table 2 shows the current status of the Fund. The table is based on the Budget of the U.S. Government for Fiscal Year 1988.

STATUS OF HIGHWAY TRUST FUND

[In thousands of dollars]

	1986 actual	1987 estimate	1988 estimate
Unexpended balance brought forward:			
U.S. securities (par)	11,942,416	11,499,288	14,028,723
Cash	943,608	1,273,620	.....
Balance of fund at start of year	12,886,024	12,772,908	14,028,723
Cash income during the year: Governmental receipts:			
From excise taxes:			
Gasoline tax	8,974,735	9,143,000	9,594,000
Truck, bus and trailer taxes	1,144,460	1,188,000	1,305,000
Tire, innertube, and tread rubber taxes	319,993	267,000	274,000
Diesel fuel taxes	2,667,358	2,741,000	2,885,000
Lubricating oil taxes	−622	.....	.....
Use tax on certain vehicles	532,791	604,000	514,000

STATUS OF HIGHWAY TRUST FUND—Continued

[In thousands of dollars]

	1986 actual	1987 estimate	1988 estimate
Truck parts and accessories tax	757		
Fines and penalties	3,304		
Transfers to land and water fund	−1,000	−1,000	−1,000
Transfer to aquatic resources fund	−69,301	−104,000	−109,000
Refund of taxes	−209,623	−187,000	−221,000
Proposed legislation:			
Gasohol exemption elimination			282,000
Bus exemption elimination			125,000
State and local government exemption elimination			415,000
Intrabudgetary transactions:			
Interest on investments	1,336,912	1,245,400	1,210,000
Total annual income	14,699,763	14,896,400	16,273,000
(Mass transit account)	(1,395,423)	(1,489,500)	(1,634,500)
Cash outlays during the year:			
Federal Highway Administration appropriations:			
Federal-aid highways (liquidation of contract authorization)	13,951,284	12,491,000	12,726,000
Highway-related safety grants (liquidation of contract authorization)	10,804	9,928	10,673
Trust fund share of other highway programs	10,283	12,691	15,380
Highway safety research and development	8,123	7,846	7,336
Miscellaneous highway trust funds	1,653	10,876	14,850
Motor carrier safety grants	13,599	26,742	46,873
Motor carrier safety			21,707
Right-of-way revolving fund (liquidation of contract authorization)	−15,534		
Baltimore-Washington Parkway	−4	1,818	2,724
National Highway Traffic Safety Administration appropriations:			
Trust fund share of operations and research	23,577	31,288	33,891
Highway traffic safety grants (liquidation of contract authorization)	135,804	127,934	127,900
Urban Mass Transportation Administration:			
Formula transit grants; (liquidation of contract authorization)			436,951

STATUS OF HIGHWAY TRUST FUND—Continued

[In thousands of dollars]

	1986 actual	1987 estimate	1988 estimate
Discretionary grants (liquidation of contract authorization)	632,563	898,000	808,000
Other agencies:			
Construction, NPS, Interior	9,627	17,500	15,900
Mt. St. Helens, USFS, Agriculture		5,592	3,510
Highland scenic highway, USFS, Agriculture	32		
Total annual outlays	14,812,879	13,640,585	14,271,695
Unexpended balance carried forward:			
U.S. securities (par)	11,499,330	14,028,723	16,030,028
Cash	1,273,578		
Balance of fund at end of year	12,772,908	14,028,723	16,030,028
Commitment against unexpended balances:			
Appropriated but not expended:			
Appropriations	—150,249	—162,794	—105,919
Liquidation of contract authorization	—1,825,445	—2,692,536	—3,222,402
Committed to future liquidating cash appropriations:			
Outstanding obligated balance of contract authority	—22,325,445	—20,881,443	—21,588,943
Unobligated balance of contract authority	—8,333,908	—9,892,810	—9,392,810
Total commitment against unexpended balances	—32,635,047	—33,629,583	—34,310,074
Uncommitted balance, end of year	—19,862,139	—19,600,860	—18,280,046

Source: Appendix to the U.S. Budget for fiscal year 1988.

Section 4. Aquatic Resources Trust Fund ("Wallop-Breaux" Fund)

Legislative History

Current Law

The Deficit Reduction Act of 1984 (Public Law 98-369) established a new trust fund, the Aquatic Resources Trust Fund (known as the Wallop-Breaux Fund), by combining and expanding the prior fish restoration and management projects ("Dingell-Johnson" Fund) and the prior National Recreation Boating Safety and Facilities Improvement Fund ("Biaggi" Fund) into a single Trust Fund. The Trust Fund consists of two accounts, the Sport Fish Restoration Account and the Boating Safety Account.

Prior Law

Fish restoration

The Act of August 9, 1950 (commonly referred to as the Dingell-Johnson Act), provided for cooperation between the Federal Government and State fish and game departments. Although the Act did not establish a trust fund, appropriations were linked to specific tax revenues. Limits were placed on State expenditures of federally-appropriated funds until the State had passed laws governing the conservation of fish and the State met other requirements.

Boating safety

1980 Act.—The National Recreational Boating Safety and Facilities Improvement Fund was enacted on October 14, 1980 (Public Law 96-451). Before this time, all funds attributable to the excise taxes on motorboat use of gasoline and other motor fuels were transferred periodically from the Highway Trust Fund into the Land and Water Conservation Fund. The 1980 Act provided financing for the Boating Fund for fiscal years 1981 through 1983.

1982 Act.—The Highway Revenue Act of 1982 (title V of the Surface Transportation Assistance Act of 1982; Public Law 97-424) extended the Boating Fund through fiscal year 1988, and increased the amounts to be transferred into the Fund.

Financing Mechanism

Amounts equivalent to the following revenues are appropriated into the Aquatic Resources Trust Fund:

(1) Revenues from the excise tax on sport fishing equipment, electric outboard motors and sonar devices suitable for finding fish under Internal Revenue Code section 4161;

(2) Revenues from the 9-cents-per-gallon excise tax on gasoline and special motor fuels in motorboats (other than $1 million of those revenues which will continue to be transferred to

the Land and Water Conservation Fund) and received before October 1, 1988; and

(3) Import duties imposed on fishing equipment and on yachts and pleasure craft.

The revenues from the motorboat fuels excise tax described above is allocated first to the Land and Water Conservation Fund (up to $1 million annually) and second to the Boating Safety Account (up to a maximum of $45 million for each fiscal year through 1988). In addition, the maximum amount permitted to be held by the account at any time cannot exceed $45 million.

All the remaining revenues described above are allocated to the Sport Fish Restoration Account.

Expenditure Purposes

Sport Fish Restoration Account

Moneys in the account may be expended, subject to appropriation acts,[1] for the purpose of restoring and managing all species of fish that have material value in connection with sport or recreation in the marine and/or fresh waters of the United States, including:

(1) Such research into problems of fish management and culture as may be necessary for efficient administration of fish resources;

(2) Acquisition of such information as necessary to guide and direct the regulation of fishing by law, including the extent of the fish population, the drain on the fish supply from fishing and/or natural causes, the necessity of legal regulation of fishing, and the effects of any measures of regulation that are applied;

(3) Formulation and adoption of plans for restocking waters with food and game fish according to natural areas or districts to which such plans are applicable, together with the acquisition of such facts as are necessary to the formulation, execution, and testing of such plans;

(4) Selection and improvement of areas of water or land adaptable as hatching, feeding, or breeding places for fish, including acquisition by purchase, condemnation, lease, or gift of such areas as are suitable therefore, and the construction thereon of such improvements, as may be necessary to make them available for these purposes;

(5) Acquisition, development, renovation, or improvement of facilities (and auxiliary facilities necessary to ensure safe use of such facilities) that create, or add to, public access to the waters of the United States for boating purposes;

(6) Aquatic resources education programs for increasing public understanding of the Nation's water resources and associated aquatic life forms; and

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[1] The permanent appropriations provision under the Act of August 31, 1951, is retained by the 1984 Act and governs expenditures from the Sport Fish Restoration Account, as successor to the sport fish restoration program of prior law.

(7) Subject to a percentage limitation contained in the 1984 Act, for administration of the sport fish restoration program by the Secretary of the Interior.

Moneys in the Account remain available until spent.

Boating Safety Account

Moneys in the Boating Safety Account may be expended, subject to appropriation Acts, as follows:

(1) Two-thirds of the amount allocated to the Account in any fiscal year for State boating safety programs (i.e., up to $30 million); and

(2) One-third of the amount allocated to the Account in any fiscal year for the operating expenses account of the Coast Guard (including the Coast Guard Auxiliary) to defray the cost of services provided by it for recreational boating safety (i.e., up to $15 million).

The State boating safety programs purposes eligible for funding from the account are:

(1) Providing facilities, equipment, and supplies for boating safety education and law enforcement, including purchase, operation, maintenance, and repair;

(2) Training personnel in skills related to boating safety and to the enforcement of boating safety laws and regulations;

(3) Providing public boating safety education, including education programs and lectures, to the boating community and the public school system;

(4) Acquiring, constructing, or repairing public access sites used primarily by recreational boaters;

(5) Conducting boating safety inspections and accident investigations;

(6) establishing and maintaining facilities for emergency or search-and-rescue assistance; and

(7) Establishing and maintaining waterway markers and other apporpriate aids to navigation.

Moneys in the Account will be available, subject to appropriations Acts, for expenditure by the Secretary of Transportation pursuant to that Secretary's contract authority, and will remain available until spent.

Miscellaneous

Statutory language relating to sport fish restoration is located at 16 U.S.C. 777 and following. Statutory language relating to boat safety is located at 46 U.S.C. 2102 and 13101 and following. The Aquatic Resources Trust Fund is established by section 9504 of the Internal Revenue Code.

Jurisdiction over program aspects of the Aquatic Resources Trust Fund is in the Committee on Merchant Marine and Fisheries.

Financial Status of the Trust Fund

The table below describes amounts in the Trust Fund that are available for appropriation.

AMOUNTS AVAILABLE FOR APPROPRIATIONS

[In thousands of dollars]

	1986 actual	1987 estimate	1988 estimate
Unappropriated balance, start of year	127,632	152,751	185,735
Collections (receipts):			
Motorboat fuels tax	70,301	105,000	110,000
Excise taxes on sport fishing equipment	67,979	77,000	69,000
Import duties on tackle and yachts	31,294	20,000	24,000
Interest on investments	16,198	18,000	18,000
Total available for appropriation	313,404	372,751	406,735
Appropriation:			
National Park Service (Department of the Interior):			
Land and Water Conservation Fund (Motorboat fuels tax)	1,000	1,000	1,000
U.S. Coast Guard (Department of Transportation):			
Boat safety (motorboat fuels tax)	22,486	30,000	15,000
Operating expenses (motorboat fuels tax)	15,000	15,000	15,000
Operating expenses (proposed legislation) (motorboat fuels tax)			15,000
United States Fish and Wildlife Service (Department of the Interior):			
Sport fish restoration account	122,167	141,016	174,000
(Motorboat fuels tax)	(50,352)	(28,165)	(59,000)
(Excise taxes on sport fishing equipment)	(45,442)	(67,979)	(77,000)
(Import duties on tackle and yachts)	(22,495)	(31,294)	(20,000)
(Interest)	(3,878)	(13,578)	(18,000)
Unappropriated balance, end of year	152,751	185,735	186,735

Source: U.S. Budget Appendix, fiscal year 1988.

Section 5. Harbor Maintenance Trust Fund

Legislative History

The Harbor Maintenance Trust Fund was established by the Congress in the Harbor Maintenance Revenue Act of 1986 (Title XIV of the Water Resources Development Act of 1986, Public Law 99-662), effective April 1, 1987.

Financing Mechanism

The 1986 Act imposes a new excise tax on the use of a U.S. harbor or channel ("port") by a commercial vessel for loading or unloading of commercial cargo, effective on April 1, 1987. The tax rate is 0.04 percent (4 cents per $100) on the value of the cargo (section 4461 of the Internal Revenue Code). Numerous special rules are included in section 4462 of the Internal Revenue Code. The tax is administered and enforced by the U.S. Customs Service.

The Trust Fund receives amounts equivalent to revenues from the harbor maintenance tax and revenues from the U.S. portion of Saint Lawrence Seaway tolls. In addition, the Trust Fund earns interest on investments of any cash balance.

Expenditure Purposes

Amounts in the Trust Fund are available, as provided by appropriation Acts, for making expenditures for:

(1) 100 percent of the eligible operations and maintenance costs of those portions of the Saint Lawrence Seaway operated and maintained by the Saint Lawrence Seaway Development Corporation for the fiscal year;

(2) not more than 40 percent of the eligible operations and maintenance costs assigned to commercial navigation of all harbors and inland harbors within the United States;

(3) payments of rebates of tolls or charges of the U.S. portion of the Saint Lawrence Seaway to payors; and

(4) payment of all expenses of administration incurred by the Treasury Department in administering the harbor maintenance tax, not to exceed $5 million per fiscal year (if the customs user fee enacted in 1986 is repealed).

The Administration's Budget for Fiscal Year 1988 states that legislation will be proposed to restore financing of the Saint Lawrence Seaway Development Corporation's operation and maintenance to the status prior to passage of the 1986 Act. Under such a proposal, the Corporation would retain the tolls to finance operation and maintenance, and rebates would continue to be paid out of the Trust Fund.

Miscellaneous

The 1986 Act requires the Secretary of the Treasury, in consultation with the Secretaries of the Army and Transportation, the U.S. Trade Representative, and representatives of U.S. ports, to conduct a study to determine the impact of the port use tax on potential diversions of cargo to Canada and Mexico from U.S. ports. The Secretary's report is due to the Congress by November 17, 1987.

The 1986 Act also requires the Secretary of State, in consultation with the Secretary of Transportation, to initiate discussions with Canada regarding reducing or eliminating all tolls on the Saint Lawrence Seaway and international Great Lakes. The Secretary is to report to the Congress on the progress of such discussions by November 17, 1988.

The statutory language establishing the Trust Fund is located in section 9505 of the Internal Revenue Code.

Financial Status of Fund

The table below describes amounts in the Trust Fund that are available for appropriation.

AMOUNTS AVAILABLE FOR APPROPRIATION

[In thousands of dollars]

	1986 actual	1987 estimate	1988 estimate
Unappropriated balance, start of year			
Receipts:			
Revenue:			
Harbor maintenance tax		73,000	160,000
Saint Lawrence Seaway tolls		6,000	
Net receipts		79,000	160,000
Total available for appropriation		79,000	160,000
Annual appropriations:			
U.S. Army Corps of Engineers, Civil: Operation and maintenance of commercial navigation harbors			−149,200
Department of the Treasury:			
Rebate of Saint Lawrence Seaway tolls			−10,400
Administration of rebates			−400
Subtotal annual appropriations			−160,000
Supplemental appropriations:			
Saint Lawrence Seaway Development Corporation: Operation and maintenance		−6,000	
U.S. Army Corps of Engineers, Civil: Operation and maintenance of commercial navigation harbors		−66,750	

AMOUNTS AVAILABLE FOR APPROPRIATION—Continued

[In thousands of dollars]

	1986 actual	1987 estimate	1988 estimate
Department of The Treasury:			
Rebate of Saint Lawrence Seaway tolls		—6,000	.....
Administration of rebates		—250	.....
Subtotal supplemental appropriations		—79,000	.....
Total appropriations		—79,000	160,000
Unappropriated balance, end of year			.....

Source: U.S. Budget Appendix, fiscal year 1988.

Section 6. Inland Waterways Trust Fund

Legislative History

The Inland Waterways Trust Fund was established in Title II of Public Law 95–502, the Inland Waterways Revenue Act of 1978, enacted on October 21, 1978. The purpose of the Act is to provide funding for making construction and rehabilitation expenditures for navigation on specified inland and intracoastal waterways. The Harbor Maintenance Revenue Act, Title XIV of the Water Resources Development Act of 1986 (Public Law 99–662), increased the tax rate and added one new waterway.

Financing Mechanism

The 1978 Act imposed an excise tax (section 4042 of the Internal Revenue Code) effective October 1, 1980, on fuel used by vessels in commercial waterway transportation on those 26 inland and intracoastal waterways specified in section 206 of the Act. These waterways include the Mississippi River upstream from Baton Rouge, the Mississippi's tributaries, and the Gulf and Atlantic Intracoastal Waterways. The 1986 Act added the Tennessee-Tombigbee Waterway to the list of inland waterways the use of which is subject to the fuel tax, effective January 1, 1987.

The tax rate was established in the 1978 Act at 4 cents per gallon for October 1, 1980, through September 30, 1981, with scheduled increases of 2 cents per gallon on October 1, 1981 (to 6 cents), October 1, 1983 (to 8 cents), and October 1, 1985 (to 10 cents). The 1986 Act provides scheduled increases in the inland waterways fuel tax to 11 cents per gallon on January 1, 1990, to 13 cents per gallon on January 1, 1991, to 15 cents per gallon on January 1, 1992, to 17 cents per gallon on January 1, 1993, to 19 cents per gallon on January 1, 1994, and to 20 cents per gallon on January 1, 1985, and thereafter. The tax does not apply to deep-draft ocean-going vessels, passenger or fishing vessels, or certain barges. The revenues from this tax are deposited into the Trust Fund. The Trust Fund also earns interest on investments of any cash balance.

Expenditure Purposes

Amounts in the Trust Fund are available, as provided by appropriation Acts, for making construction and rehabilitation expenditures for navigation on the inland and coastal waterways of the United States described in section 206 of the Inland Waterways Revenue Act of 1978, as in effect on January 1, 1987 (the effective date of the 1986 Act provision). Not more than half of the cost of any construction to which section 102(a) of the 1986 Act applies may be paid from the Trust Fund. (Section 102(a) requires that half

the costs of construction for certain listed projects be paid from amounts appropriated from the general fund of the Treasury.)

Miscellaneous

The 1978 Act required an extensive study of inland waterways users taxes and charges by the Secretary of Transportation and the Secretary of Commerce, in consultation with a number of other agencies which was received by the Congress in February 1982.

The Secretary of the Treasury is also required to submit an annual report to the Congress on the financial condition of the Trust Fund, beginning September 30, 1981.

The House Committee on Public Works and Transportation has jurisdiction over inland waterway authorizations.

Statutory language relating to inland waterway expenditures is located at 33 U.S.C. 1801. The Inland Waterways Trust Fund is established by section 9506 of the Internal Revenue Code.

Financial Status of the Trust Fund

The table below describes amounts in the Trust Fund that are available for appropriation.

AMOUNTS AVAILABLE FOR APPROPRIATION

[In thousands of dollars]

	1986 actual	1987 estimate	1988 estimate
Unappropriated balance, start of year	172,308	239,896	294,896
Receipts:			
Inland waterway fuel tax	40,302	45,000	48,000
Interest and profits on investments	27,286	36,000	37,000
Total available for appropriation	239,896	320,896	379,896
Appropriation		−26,000	−38,000
Unappropriated balance, end of year	239,896	294,896	341,896

Source: U.S. Budget Appendix, Fiscal Year 1988.

Section 7. Hazardous Substance Superfund

Legislative History

A Hazardous Substance Response Trust Fund was enacted in Title II, Subtitle B of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 on December 11, 1980 (Public Law 96–510). The taxes enacted to fund the Trust Fund expired on September 30, 1986.

The Trust Fund and related taxes (including additional taxes) were reestablished by the Superfund Revenue Act of 1986 (Title V of the Superfund Amendments and Reauthorization Act of 1986, Public Law 99–499).

The 1980 Act appropriated to the Trust Fund amounts equivalent to the excise taxes received by the Treasury under Internal Revenue Code sections 4611 and 4661, the amounts recovered on behalf of the Trust Fund under the Act, all moneys recovered or collected under section 311(b)(6)(B) of the Clean Water Act, penalties assessed under Title I of the 1980 Act, and punitive damages under section 107(c)(8) of the 1980 Act.

Section 4611 of the Internal Revenue Code imposed a tax of 0.79 cent per barrel on crude oil used in, exported from, or imported into the United States. Section 4661 of the Internal Revenue Code imposed a tax on any taxable chemical sold by a manufacturer, producer, or importer.

The 1980 Act also authorized to be appropriated to the Trust Fund $44 million in each fiscal year from 1981 through 1985. The 1980 Act provided for the transfer to the Trust Fund of one-half of the unobligated balance remaining on December 10, 1980, under the Fund in section 311 of the Clean Water Act and the amounts appropriated under section 504(b) of the Clean Water Act during any fiscal year.

When the 1986 Act reinstated the Trust Fund, its title was changed to the Hazardous Substance Superfund.

Financing Mechanism

The 1986 Act provides for deposits into the Trust Fund of tax revenues and general revenue appropriations intended to total $8.5 billion in revenues for fiscal years 1986–1990 (including interest and estimated recoveries). The 1980 legislation had been designed to provide only $1.6 billion for the Trust Fund for fiscal years 1981–1985 ($0.2 billion from the petroleum tax, $1.2 billion from the feedstock chemicals tax, and $0.2 billion from general revenue appropriations). The 1986 Act would provide the $8.5 billion in estimated revenue in the following manner:

	Billions
Petroleum tax	$2.75
Feedstock chemicals tax	1.40
Environmental income tax	2.50
General revenue appropriations	1.25
Interest	.30
Recoveries	.30
Total	8.50

The specific financing provisions are as follows:

1. Petroleum tax

The petroleum tax of prior law is reimposed (effective January 1, 1987) at a rate of 8.2 cents per barrel for domestic crude oil, and 11.7 cents per barrel for imported petroleum products (including imported crude oil). The petroleum tax generally expires on December 31, 1991. The tax would terminate earlier than that date if cumulative Superfund tax receipts during the reauthorization period equal or exceed $6.65 billion. Additionally, if (1) on December 31, 1989 or December 31, 1990, the unobligated balance of the Trust Fund exceeds $3.5 billion, and (2) the Secretary of the Treasury, in consultation with the EPA Administrator, determines that such unobligated balance will exceed $3.5 billion on December 31 of the next following calendar year if no Trust Fund taxes are imposed during that year, then no tax is to be imposed during that year.

2. Tax on feedstock chemicals

The 1986 Act reimposes the tax on feedstock chemicals at its prior law rates (except in the case of xylene). Under the 1986 Act, except for imports and exports, xylene does not include separated isomers for purposes of the tax. Taxes previously imposed on xylene are refunded or credited (with interest) to the taxpayers. To compensate for lost revenues, the tax rate on xylene is increased. The tax is effective on January 1, 1987. The tax would expire under the same circumstances as described for the petroleum tax.

An exemption for exported feedstock chemicals and certain derivatives is allowed.

3. Tax on imported chemical derivatives

A tax on certain imported chemical feedstock derivatives is imposed as though the taxable chemicals used as materials had been sold in the United States for an equivalent use. If the importer does not furnish information to make the above determination, the amount of the tax is 5 percent of the customs value of the imported chemical derivative.

4. Environmental income tax

The 1986 Act provides a new environmental tax based on corporate alternative minimum taxable income. The amount of tax is equal to 0.12 percent ($12 of tax per $10,000) of alternative mini-

mum taxable income without regard to net operating losses and the deduction for this tax, over $2 million.

The environmental tax is effective for taxable years beginning after December 31, 1986. The environmental tax is not imposed in any taxable year beginning during a calendar year in which the petroleum and chemical feedstocks taxes are not imposed.

Expenditure Purposes

Amounts in the Trust Fund are available for expenditures, under appropriations Acts, incurred in connection with releases or threats of releases of hazardous substances into the environment. Allowable costs include (1) costs of responding to the presence of hazardous substances on land or in the water or air, including cleanup and removal of such substances and remedial action and (2) certain costs related to response including epidemiologic studies and maintenance of emergency strike forces. Payments for natural resource damage claims are not allowed (although they were allowed before the 1986 Act).

Miscellaneous

A separate Trust Fund, the Post-Closure Liability Trust Fund, was created by the 1980 Act to assume completely the liability of owners and operators of hazardous waste disposal facilities that have been granted permits and have been properly closed under Subtitle C of the Resource Conservation and Recovery Act. The Post-Closure Fund was financed through a tax of $2.13 per dry weight ton on hazardous waste. The 1986 Act repealed the Post-Closure Fund and tax, effective October 1, 1983 (the original effective date of the tax). Taxpayers who paid the tax may file claims for refunds of the tax, plus interest. The statute of limitations is extended so that taxpayers who paid the tax may file claims for refunds.

The Hazardous Substance Superfund is established in section 9507 of the Internal Revenue Code. The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) is located at 42 U.S.C. 9601 et seq. The Energy and Commerce Committee has jurisdiction over CERCLA.

Financial Status of Fund

The table below describes amounts in the Trust Fund that are available for appropriation.

AMOUNTS AVAILABLE FOR APPROPRIATION

[In thousands of dollars]

	1986 actual	1987 estimate	1988 estimate
Unappropriated balance, start of year		9,034	.....
Receipts:			
Interest	41,788	22,866	47,800
Fines and recoveries	15,718	31,000	51,000
Transfers from the general fund, amounts equivalent to taxes	14,828	713,000	1,136,000
Payments and advances from the general fund	198,000	635,400	.....
Total:			
Available for appropriation	270,334	1,411,300	1,234,800
Appropriation	−261,300	−1,411,300	−1,200,000
Unappropriated balance, end of year	9,034	.....	34,800

Section 8. Leaking Underground Storage Tank Trust Fund

Legislative History

The Superfund Revenue Act of 1986 (Title V of the Superfund Amendments and Reauthorization Act of 1986, Public Law 99-499) established in the Treasury the Leaking Underground Storage Tank Trust Fund, effective on January 1, 1987.

Financing Mechanism

The 1986 Act imposes additional taxes on gasoline, diesel fuel, special motor fuels, fuels used in aviation, and fuels used in commercial transportation on inland waterways (sections 4081, 4041, 4042, etc. of the Internal Revenue Code). The additional excise tax of 0.1 cents per gallon terminates on the earlier of December 31, 1991, or when the net revenues from the tax are at least $500 million. Amounts equivalent to the taxes received in the Treasury are appropriated into the Trust Fund. In addition, amounts received in the Treasury and collected under section 9003(h)(6) of the Solid Waste Disposal Act are to be deposited into the Fund (recoveries from parties responsible for leaking tanks).

Expenditure Purposes

Amounts in the Trust are available, as provided in appropriation Acts, to pay cleanup and related costs of the Environmental Protection Agency involving tanks where no solvent owner can be found, or where the owner or operator refuses or is unable to comply with an urgent corrective order. Trust Fund revenues are also available to provide grants to States for up to 90 percent of the costs of carrying out these purposes.

The Administration's Budget for fiscal year 1988 states that the Environmental Protection Agency will develop and oversee the cleanup program which will be implemented by the States. Funds will be allocated to the States through cooperative agreements, to clean up those sites posing the greatest threat to human health and the environment. The Trust Fund will also cover administrative expenses necessary to carry out the program.

Miscellaneous

The statutory provisions providing for cleanup of petroleum from leaking underground storage tanks is located at 42 U.S.C. 6991. The Energy and Commerce Committee has jurisdiction over program aspects of the cleanup of leaking underground storage tanks.

The Trust Fund is established in section 9508 of the Internal Revenue Code.

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Financial Status of the Trust Fund

The table below describes amounts in the Trust Fund that are available for appropriation.

AMOUNTS AVAILABLE FOR APPROPRIATION

[In thousands of dollars]

	1986 actual	1987 estimate	1988 estimate
Unappropriated balance, start of year			40,700
Receipts:			
Interest		2,700	8,900
Transfers from the general fund, amounts equivalent to taxes		88,000	130,000
Total:			
Available for appropriation		90,700	179,600
Appropriation		−50,000	
Unappropriated balance, end of year		40,700	179,600

Source: U.S. Budget Appendix, Fiscal Year 1988.

The Budget states that no new resources are requested in 1988 given that sufficient funding, approximately $25 million, is expected to carry over from 1987 (the unobligated balance available at the end of fiscal year 1987).

Section 9. Oil Spill Liability Trust Fund

Legislative History

The Omnibus Budget Reconciliation Act of 1986 (Public Law 99–509) establishes in the Treasury an Oil Spill Liability Trust Fund. The 1986 Act also imposes certain taxes on domestic and imported oil to provide revenue for the Trust Fund. The Oil Spill Fund provisions and the related taxes will be effective at the beginning of the first month occurring more than 30 days after enactment of authorizing legislation, but in no event will such provisions and taxes be effective before February 1, 1987. The taxes and Trust Fund provisions will never become effective if authorizing legislation is not enacted by September 1, 1987.

Financing Mechanism

The Trust Fund would be financed in part by an excise tax of 1.3 cents per barrel on crude oil and imported petroleum products. The tax would be imposed on the same crude oil and petroleum products, and would be subject to the same definitional and other provisions as the Superfund petroleum tax (section 4611 of the Internal Revenue Code). A credit against the oil spill tax would be allowed for amounts paid by the taxpayer before 1987 into the Deepwater Port Fund or the Offshore Oil Fund (including the contributors' share of accrued interest on contributions determined as of January 1, 1987).

The excise tax on petroleum that is used to finance the Oil Spill Fund would terminate when cumulative revenues from the tax reach $300 million.

Expenditure Purposes

The general expenditure purposes of the Trust Fund are limited to payments, as provided in appropriation Acts, of (1) certain removal costs and related costs associated with oil spills; (2) claims asserted under authorizing legislation substantially similar to the Comprehensive Oil Pollution Liability and Compensation Act (which was adopted by the House of Representatives during the 99th Congress); (3) administrative expenses incurred by the Federal Government under the authorizing legislation; and (4) contributions to the International Fund for Compensation for Oil Pollution Damage if the conventions establishing this fund come into force with respect to the United States.

Miscellaneous

Statutory provisions providing for cleanup of oil spills in navigable waters had not been enacted upon publication of this document. The Committee on Merchant Marine and Fisheries and the Com-

mittee on Public Works have jurisdiction over program aspects of the cleanup of oil spills in navigable waters.

The Trust Fund is established in section 9509 of the Internal Revenue Code.

Section 10. Land and Water Conservation Fund

Legislative History

On September 3, 1964, the Congress enacted Public Law 88–578, which established the Land and Water Conservation Fund as a separate account in the Treasury, effective January 1, 1965. Minor amendments were made to the Fund in 1965 (Public Law 89–72).

In 1968, Public Law 90–401 eliminated the system of user fees for all Federal recreation areas that had been included previously in the law. The repeal was effective December 31, 1971.[1] The 1968 Act also added authorization for additional appropriations of such amounts as were necessary to make the income of the Fund not less than $200 million for each of the five fiscal years beginning July 1, 1968, and ending June 30, 1973. To the extent that appropriated sums were insufficient to reach the required amounts, an amount sufficient to cover the remainder was to be credited to the Fund from revenues due and payable to the United States for deposit in the Treasury as miscellaneous receipts under the Outer Continental Shelf Lands Act.

In 1970, Public Law 91–485 increased the authorized appropriations to not less than $300 million for fiscal years 1971 through June 30, 1989. As a result of amendments in 1976 and 1977, the amount for fiscal year 1978 was increased to $900 million (Public Law 94–422, Public Law 94–273 and Public Law 95–42).

In 1981, Public Law 96–451 provided for the transfer from the Land and Water Conservation Fund of an amount not to exceed $20 million per year for fiscal years 1981–1983 of revenues from motorboat fuel taxes to the National Recreational Boating Safety and Facilities Improvement Fund. The Highway Revenue Act of 1982 (Title V of the Surface Transportation Assistance Act of 1982, Public Law 97–424) increased this limitation on transfers of motorboat fuels taxes to the Boating Fund to $45 million through September 30, 1988. In 1981, Public Law 96–514 provided that revenues from recreation fee collections should be deposited into the Land and Water Conservation Fund.

The Deficit Reduction Act of 1984 (Public Law 98–369) reduced the amount attributable to the excise taxes on gasoline and special fuels used in motorboats which is transferred to the Land and Water Conservation Fund. Under the Act, an amount not to exceed $1 million per fiscal year of the revenue attributable to these motorboat fuels excise taxes will continue to be transferred to the Fund. (See section 4 for changes in the Boating Fund.)

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[1] A limited system of fees was later reinstated, and for several years these revenues generally were to be covered into a special account in the Treasury to be administered in conjunction with, but separately from, the Land and Water Conservation Fund.

Financing Mechanism

Internal Revenue Code section 9503 provides that up to $1 million per year of amounts equivalent to motorboat fuel taxes will be transferred from the Highway Trust Fund to the Land and Water Conservation Fund.

As provided by 16 U.S.C. 460*l*–5, the following amounts will be deposited in the Land and Water Conservation Fund:

(1) All proceeds (except that committed under 40 U.S.C. 485 (b) to (e) or the Independent Offices Appropriation Act or in any later appropriation act) received from any disposal of surplus real property and related personal property under the Federal Property and Administrative Services Act of 1949 (as amended), notwithstanding any provision of law that such proceeds shall be credited to miscellaneous receipts of the Treasury;

(2) The motorboat fuel tax revenues described above (not including revenues from the 0.1 cents per gallon tax imposed to provide funds for cleanup of leaking underground storage tanks) and certain related revenues received before July 1, 1978;

(3) In addition, there are authorized to be appropriated annually to the Fund such amounts as necessary to make the income of the Fund not less than $300 million for fiscal year 1977, and $900 million for fiscal year 1978 and for each fiscal year thereafter through September 30, 1989; and

(4) To the extent that the appropriated sums are not sufficient to make the total annual income of the Fund equivalent to the amounts enumerated above, an amount sufficient to cover the remainder shall be credited to the Fund from revenues due and payable as miscellaneous receipts under the Outer Continental Shelf Lands Act (43 U.S.C. 1331 *et seq.*).

Moneys covered into the Fund under (4) above remain in the Fund until appropriated by the Congress.

16 U.S.C. 460*l*–5a provides that revenues from recreation fee collections by Federal agencies shall be paid into the Land and Water Conservation Fund, to be available for appropriation for any or all purposes authorized by the Land and Water Conservation Fund.

The Administration's Budget for fiscal year 1988 states that proposed legislation would eliminate the earmarking of receipts from recreation fees to the Land and Water Conservation Fund. Such receipts collected by the National Park Service would be transferred to the general fund of the Treasury in fiscal year 1987 pursuant to a provision in Public Law 99–591 and would be retained for use under the operation of the Park System account in fiscal year 1988 under the proposed legislation.

Expenditure Purposes

16 U.S.C. 460*l*–4 provides that the land and water conservation provisions of section 460 are "to assist in preserving, developing, and assuring accessibility to all citizens of the United States of America of present and future generations and visitors who are lawfully present within the boundaries of the United States of

America such quality and quantity of outdoor recreation resources as may be available and are necessary and desirable for individual active participation in such recreation and to strengthen the health and vitality of the citizens of the United States by (1) providing funds for and authorizing Federal assistance to the States in planning, acquisition, and development of needed land and water areas and facilities and (2) providing funds for the Federal acquisition and development of certain lands and other areas."

Moneys in the Fund are available for expenditures as provided in appropriation acts. Not less than 40 percent of annual appropriations are to be used for Federal purposes; these include activities and programs of the Bureau of Land Management, the Forest Service, the Fish and Wildlife Service and the National Park Service. The remainder of funds appropriated are for State purposes, and these funds are apportioned among the States on the basis of statutory formula and criteria.

Miscellaneous

Jurisdiction over the land and water conservation programs is within the Committee on Interior and Insular Affairs.

No annual report is required on the Fund's financial condition or operations.

The statutory provisions establishing the Land and Water Conservation Fund and governing its operation are located at 16 U.S.C. 460(l).

Financial Status of Fund

The table below describes the amounts in the Trust Fund that are available for appropriation.

AMOUNTS AVAILABLE FOR APPROPRIATION

[In thousands of dollars]

	1986 actual	1987 estimate	1988 estimate
Regular account: Unappropriated balance, start of year	3,614,045	4,345,836	5,194,578
Offsetting receipts: Land and Water Conservation Fund Act:			
Recreation fees	29,558	1,000	31,100
Proposed legislation			−30,100
Surplus property sales	62,891	237,794	389,842
Motorboat fuels tax	1,000	1,000	1,000
Outer Continental Shelf receipts	805,513	660,206	478,058
Proposed legislation			30,100
Unobligated balance returned to unappropriated receipts	1,038		
Total available for appropriation	4,514,045	5,245,836	6,100,466

AMOUNTS AVAILABLE FOR APPROPRIATION—Continued

[In thousands of dollars]

	1986 actual	1987 estimate	1988 estimate
Appropriation:			
Bureau of Land Management, land acquisition	−2,188	−3,020	−10
Proposed rescission		2,700	
Fish and Wildlife Service, land acquisition	−41,061	−42,425	−1,500
Proposed rescission		26,763	
National Park Service, land acquisition	−93,604	−87,220	−16,031
Proposed rescission		67,638	
Forest Service (Department of Agriculture), land acquisition	−31,356	−52,236	−3,907
Proposed rescission		42,430	
Forest Service (Department of Agriculture), operation and maintenance of recreation facilities			−52,000
Total appropriations	−168,209	−45,370	−73,448
Unappropriated balance, end of year	4,345,836	5,200,466	6,027,018
Special account (Public Law 95–42, sec. 1):			
Unappropriated balance, start of year	142,621	142,621	142,621
Total available for appropriation	142,621	142,621	142,621
Appropriation			
Unappropriated balance, end of year	142,621	142,621	142,621

Source: U.S. Budget Appendix, fiscal year 1988.

Section 11. Wildlife Restoration Projects ("Pittman-Robertson" Fund)

Legislative History

The Act of September 2, 1937, provided for cooperation between the Federal Government and the States regarding wildlife restoration projects. The 1939 Reorganization Plan No. II, section 4(f), transferred the functions of the Secretary of Agriculture relating to the conservation of wildlife game and migratory birds to the Secretary of the Interior.

The 1937 Act provided that amounts equivalent to excise taxes on sporting arms and ammunition would be deposited into the Federal Aid to Wildlife Restoration Fund.

The Federal Aid in Wildlife Restoration Act Amendments of 1970 (Title I of Public Law 91-503), added provisions for the deposit of the amounts equivalent to excise taxes on pistols and revolvers into the Fund beginning in fiscal year 1971. Public Law 92-558 added provisions for the deposit of amounts equivalent to the excise taxes on bows and arrows and their parts and accessories into the Fund beginning with fiscal year 1975.

Financing Mechanism

To carry out wildlife restoration projects, there is authorized to be appropriated an amount equal to all revenues accruing from any tax imposed by Internal Revenue Code section 4161(b) on bows, arrows, and parts and accessories and section 4181 on pistols, revolvers, other firearms, shells, and cartridges. Section 4161 imposes an excise tax of 11 percent of the price for which bows with a draw weight of 10 pounds or more; arrows that measure 18 inches overall or more in length or arrows that measure less than 18 inches in overall length which are suitable for use with a taxable bow; and parts, accessories, or quivers suitable for use with taxable bows are sold by a manufacturer, producer, or importer. Section 4181 imposes a similar tax of 10 percent upon the sale of pistols and revolvers and 11 percent on other firearms, shells, and cartridges. Section 4182 provides exemptions for certain machine guns and short barrelled firearms (on which a transfer tax has been paid under section 5811) and sales to the Defense Department.

Expenditure Purposes

Any State which wishes to receive any of these appropriations must assent to the provisions of Chapter 5B of U.S. Code Title 16 and enact laws for the conservation of wildlife including a prohibition against the diversion of license fees paid by hunters for any purpose other than the administration of the State fish and game department. The Secretary of the Interior and the State fish and

game department must agree upon the wildlife restoration projects to be aided in the State. The project must conform to the standards fixed by the Secretary of the Interior.

A wildlife restoration project is defined to include the selection, restoration, rehabilitation, and improvement of areas of land or water adaptable as feeding, resting, or breeding places for wildlife, including acquisition by purchase, condemnation, lease or gift of such areas or estates or interests therein as are suitable or capable of being made suitable therefor, and the construction thereon or therein of such works as may be necessary to make them available for such purposes. The term includes also such research into problems of wildlife management as may be necessary to efficient administration affecting wildlife resources.

The authorized revenues are made available until expended. Amounts not spent by a State within two fiscal years are made available for expenditure by the Secretary of the Interior to carry out the provisions of the Migratory Bird Conservation Act (16 U.S.C. 715).

Up to 8 percent of the available funds are required to be apportioned as the Secretary of the Interior estimates necessary to administer the Migratory Bird Conservation Act. The remainder of the revenue (except as provided in the following paragraph) is apportioned among the States in the following manner: one-half in the ratio which the area of each State bears to the total area of all the States, and one-half in the ratio which the number of paid hunting-license holders of each State (2 years earlier) bears to the total number of paid license holders of all the States. No State is to receive less than one-half of 1 percent or more than 5 percent of the total amount apportioned.

One-half of the revenues from the tax imposed on pistols, revolvers, bows, and arrows is to be apportioned among the States in proportion to the ratio that the population of each State bears to the population of all the States. Each State is to be apportioned between 1 and 3 percent of the revenue under this population apportionment.

Puerto Rico, Guam, the Commonwealth of the Northern Mariana Islands, and the Virgin Islands can also be appropriated limited amounts of these revenues.

Miscellaneous

Statutory language providing the permanent authorization and related matters is located at 16 U.S.C. 669 and following.

The Committee on Merchant Marine and Fisheries has jurisdiction over expenditures for wildlife restoration projects.

Section 12. Reforestation Trust Fund

Legislative History

In 1980, the Congress enacted Title III of Public Law 96-451 which provided for the amortization of certain reforestation expenses and established the Reforestation Trust Fund.

In 1982, provisions were enacted as part of the Surface Transportation Assistance Act of 1982 (H.R. 6211, P.L. 97-424) directing the Secretary of Agriculture to expend all amounts in the Trust Fund during fiscal years 1983, 1984, and 1985, and directing that the Secretary spend not less than $104 million in fiscal year 1983. The 1982 Act also stated that it is the intent of the Congress that amounts remaining in the Trust Fund from the earlier period as of October 1, 1985, are to be distributed to the States for use in State forestry programs no later than April 30, 1986.

Financing Mechanism

Funds for the Reforestation Trust Fund are derived from import duties on plywood and lumber. The Secretary of the Treasury is required to transfer receipts from these tariffs to the Trust Fund in maximum amounts of $30 million for each fiscal year. In addition, the Trust Fund earns interest on investments of any cash balance.

Expenditure Purposes

Funds are to be used to supplement congressional appropriations for reforestation and timber stock improvement on publicly owned national forests, in order to eliminate and prevent a backlog in reforestation of the National Forest system.

For each of the five fiscal years from fiscal year 1981 through fiscal year 1985, appropriations were authorized from the Trust Fund to the Secretary of Agriculture to pay estimated necessary direct costs and properly allocable administrative costs for reforestation and related programs (under section 3(d)(2)) of the Forest Rangeland Resources Planning Act of 1974 (16 U.S.C. 1601(d)(2)), but only to the extent these estimated costs exceeded amounts appropriated out of the general fund for these purposes.

While the expenditure language regarding the Trust Fund appears to provide expenditure purposes only through fiscal year 1985, it does add that it is the intent of the Congress that the Secretary of Agriculture expend all of the funds available in the Trust Fund in each fiscal year. Any such funds which are not expended in a given fiscal year shall remain available for expenditure without fiscal year limitation (except as noted above).

Miscellaneous

After consulting with the Secretary of Agriculture, the Secretary of the Treasury must submit annual reports to the Congress setting forth the financial condition and operating results of the Reforestation Trust Fund for the preceding fiscal year and the expected condition and results of the Trust Fund for the next year.

The statutory language establishing the Reforestation Trust Fund and governing its operations are located at 16 U.S.C. 1606(a).

Financial Status of Fund

The table below describes the program and financing for the Trust Fund.

[In thousands of dollars]

		1986 actual	1987 estimate	1988 estimate
	Program by activities:			
00.01	Direct program	30,047	30,007	35,000
01.01	Reimbursable program	185	.....	.....
10.00	Total obligations	30,232	30,007	35,000
	Financing:			
11.00	Offsetting collections from: Federal funds	−185	.....	.....
21.40	Unobligated balance available, start of year	−4,749	−5,007	−5,000
24.40	Unobligated balance available, end of year	5,007	5,000	.....
60.00	Budget authority (appropriation) (permanent, indefinite)	30,305	30,000	30,000
	Relations of obligations to outlays:			
71.00	Obligations incurred, net	30,047	30,007	35,000
72.40	Obligated balance, start of year	.....	.....	265
74.40	Obligated balance, end of year	.....	−265	−5,265
90.00	Outlays	30,047	29,742	30,000

Source: U.S. Budget Appendix, fiscal year 1988.

Section 13. Deep Seabed Revenue Sharing Trust Fund

Legislative History

The Deep Seabed Revenue Sharing Trust Fund was established in 1979 by Title IX of the Deep Seabed Hard Mineral Resources Act (Public Law 96-223). The purpose of the Trust Fund is to accelerate the program of environmental assessment of exploration for and commercial recovery of hard mineral resources of the deep seabed and assure that such exploration and recovery activities are conducted in a manner which will encourage the conservation of such resources, protect the quality of the environment, and promote the safety of life and property at sea. An additional purpose is to encourage continued development of deep seabed mining technology.

Financing Mechanism

The Deep Seabed Revenue Sharing Trust Fund is funded by amounts determined by the Secretary of the Treasury to be equivalent to the amount of the excise taxes received in the Treasury under the Deep Seabed Hard Mineral Removal Tax Act of 1979. The excise tax, imposed under Internal Revenue Code section 4495, is 3.75 percent of the "imputed value" of hard mineral resources removed from the deep seabed.[1] The tax became effective on January 1, 1980, and terminates after the earlier of the date on which an international deep seabed treaty takes effect with respect to the United States or on June 29, 1990.

A mining company can elect to have the application of the excise tax suspended with respect to one or more commercially recoverable metals or minerals contained in the nodules removed from the deep seabed if the mining company does not intend to process, use commercially, or sell that metal or mineral within one year after the date of extraction. If a mining company elects to suspend the tax on a mineral and later processes, uses, or sells that mineral, then the mining company is liable for the excise tax and interest on the deferred amount. The interest is to be paid into the Trust Fund and will be treated like other amounts in the Trust Fund. If the additional tax is paid after substantial disposition of Trust Fund assets by Congress, the additional tax is to be disposed of in a manner provided in the legislation making the substantial disposition or in subsequent acts.

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[1] The "imputed value" is equal to 20 percent of the fair market value of the commercially recoverable metals and minerals in such resource. Thus, the effective tax rate is 0.75 percent of the fair market value of the resource.

Expenditures Purposes

Appropriations have been authorized from the Trust Fund for making contributions which may be required pursuant to an international deep seabed treaty which may become effective with respect to the United States on or before June 28, 1990. Trust Fund amounts may be appropriated for making contributions required under such a treaty for the purpose of sharing the revenue from deep seabed mining among nations of the world.

In the event that an international deep seabed treaty does not become effective with respect to the United States on or before June 28, 1990, amounts in the Trust Fund will be available for such purposes as Congress may provide by law. Thus, if an international deep seabed treaty is not in effect with respect to the United States prior to June 29, 1990, amounts in the Trust Fund will be disposed of only in accordance with an act of Congress.

Miscellaneous

The Secretary of the Treasury is required to submit an annual report to the Congress with respect to the Deep Seabed Revenue Sharing Trust Fund beginning with the fiscal year ending September 30, 1980.

The Statutory provisions establishing the Deep Seabed Revenue Sharing Trust Fund and governing its operation are located at 30 U.S.C. 1472.

Financial Status of Fund

Since no treaty is yet in effect, there have been no appropriations from the Fund. No revenues are expected from the excise tax until the late 1980's. At that time it is estimated that the tax will raise a maximum of $5 million in annual net revenues (gross revenue less income tax lost because of deductibility of the tax).

Section 14. Tax Court Judges Survivors Annuity Fund

Legislative History

The Tax Court Judges Survivors Annuity Fund was enacted in Public Law 87–370 on October 4, 1961. Amendments which increase the annuity amounts payable from the Fund were enacted in Public Law 97–362 (H.R. 4717) on October 25, 1982. Amendments to increase the maximum annuities receivable by surviving children of a deceased Tax Court judge where the judge also leaves a surviving spouse were enacted in Public Law 98–369 (H.R. 4170) on July 18, 1984. Amendments to make the survivors annuity provisions relating to Tax Court judges parallel to those applicable to other Federal judges, following enactment of Public Law 99–336, were enacted in Public Law 99–514 (H.R. 3838), generally effective on November 1, 1986. Internal Revenue Code section 7448 provides the statutory basis for the annuities to surviving spouses and dependent children of Tax Court judges.

Financing Mechanism

Any judge of the United States Tax Court may by written election while a judge (or before a successor takes office) participate in the Fund. There is deducted and withheld from the salary of each judge electing to participate 3.5 percent of that judge's salary. The amounts deducted and withheld are deposited, in accordance with procedures prescribed by the Comptroller General of the United States, in the U.S. Treasury to the credit of the Tax Court Judges Survivors Annuity Fund. A judge may deposit, with interest at 4 percent per annum to December 31, 1947, and at 3 percent per annum thereafter, compounded on December 31 of each year, to the credit of the Fund, a sum equal to 3 percent of the judge's salary and of that individual's basic salary, pay, or compensation for service as a Senator, Representative, Delegate, or Resident Commissioner in Congress, and for any other civilian service within the purview of 5 U.S.C. 8332 for services performed before November 1, 1986, and 3.5 percent for services performed after November 1, 1986. Each judge may elect to make the deposits in installments during continuance of service as a judge in such amount and under such conditions as may be determined in each instance by the chief judge of the Tax Court.

Notwithstanding the failure of a judge to make the deposit, credit is allowed for the service rendered, but the annuity of the surviving spouse of the judge is reduced by an amount equal to 10 percent of the amount of the deposit, computed as of the date of the death of the judge (unless the surviving spouse elects not to count the service, for which the deposit was not made, in determining the annuity due). No deposit is required from a judge for any

year with respect to which deductions from salary were actually made under the civil service retirement laws. Also, no deposit is required for any honorable service in the Army, Navy, Air Force, Marine Corps, or Coast Guard of the United States.

Expenditure Purposes

The Fund is used to pay annuities to a deceased judge's surviving spouse and children.

If a judge who elects to participate in the Fund dies after having rendered at least 5 years of civilian service for which salary was withheld for the Fund (or for which salary was withheld under the civil service retirement laws), a surviving spouse or surviving dependent child is entitled to an annuity from the Fund. If the surviving spouse has not attained age 50 at the date of the judge's death (and no dependent child survives), the annuity commences when the surviving spouse reaches age 50. The annuity payable to a surviving spouse terminates upon the surviving spouse's death or remarriage. An annuity payable to a dependent child and to a surviving spouse, if the judge is also survived by a dependent child, begins immediately after the judge's death. The annuity for a dependent child terminates generally upon the surviving child's reaching 18 years of age, marriage, or death. If the child is incapable of self support because of mental or physical disability, the annuity would terminate only upon death, marriage, or recovery from the disability.

The annuity payable to a surviving spouse of a judge electing under the Fund is equal to a stated percentage (generally 1¼ percent) of the average annual salary received by the judge (whether the judge's salary or compensation for other allowable Federal service) for the 5 consecutive years in which the judge received the largest average annual salary, multiplied by the sum of years of judicial or other allowable Federal service. The annuity for the surviving spouse cannot exceed 37½ percent of the average annual salary of the judge. The annuity of the surviving spouse will be reduced to account for periods of time when the judge did not contribute to the Fund. The amount of the annuity payable to a surviving dependent is based upon the annuity payable to a surviving spouse (subject to certain limits).

Under the 1982 amendments, annuities payable with respect to judges dying after the date of enactment are increased by (1) basing the annuity on the judges' salary for the 3 (versus 5) consecutive years in which the judges received the largest average annual salary, and (2) increasing the maximum annuity to 40 percent (versus 37½ percent) of such average annual salary. These amendments also provide that survivor annuities will be adjusted for cost-of-living increases by increasing such annuities by 3 percent for each 5 percent by which the salary of Tax Court judges is increased. Annuities in pay status on the date of enactment are adjusted immediately to reflect post-1963 salary increases.

Under the 1984 amendments, the maximum annuities receivable by surviving children of a deceased Tax Court judge where the judge also leaves a surviving spouse are increased from $900 per year per family ($360 per child) to $4,644 per year per family

($1,548 per child). Where there is no surviving spouse, the maximum annuities for surviving dependent children are increased to $5,580 per year per family, or $1,860 per child, whichever is less. These increases are effective for annuities payable for months beginning after July 18, 1984.

Under the 1986 Tax Reform Act, the judges' salary contribution to the fund and civilian service for benefits to be payable under the program increased from 3 percent to 3.5 percent. The annuity for a surviving spouse increased to 1½ percent (verses 1¼ percent) of the judge's average salary per the 3-year consecutive year requirement, but cannot exceed 50 percent (versus 40 percent) of the average annual salary, nor be less than 25 percent of the average annual salary. The annuity payable to a surviving spouse does not terminate upon remarrige at age 55 or older. Where there are children and a surviving spouse, the maximum annuity per child is the lesser of 10 percent of the average annual salary, or 20 percent of the average annual salary divided by the number of children (versus the lesser of 50 percent of the spouse's annuity to $4,644 per year per family, or $1,548 per child). Where there is no surviving spouse, the maximum annuity per child is the lesser of 20 percent of the average annual salary or 40 percent of the average annual salary divided by the number of children (versus an amount equal to what spouse would have received if surviving not to exceed $5,580 per year per family, or $1,860 per child, which ever is less). Judges who retire under a new retirement election, i.e., fixed salary and opportunity to practice law, will continue to have the prescribed deduction (3.5 percent) withheld from their retired pay and will receive credit for those years of contribution. A judge who "ceases to be married" after electing to participate in the Fund may terminate his participation and receive a refund of contributions plus interest. The increase in salary deductions is effective November 1, 1986. The increase in the civilian service percentage is effective for service performed after November 1, 1986. The amendments apply to annuities starting after November 1, 1986. Any judge electing prior to November 1, 1986, to participate in the fund may revoke that election within the 180-day period beginning after enactment and receive a refund of contributions plus interest. Any judge who revokes within the 180-day period may later participate only upon repayment of entire refund plus interest.

Financial Status of Fund

As of September 30, 1986, 24 judges of the Tax Court were participating in the Fund, and 3 eligible widows were receiving survivor annuities.

Actual outlays for fiscal year 1985 and 1986 were $26,000 and $53,000 respectively; and estimated outlays for fiscal years 1987 and 1988 are $58,000 for each year.

Section 15. Railroad Retirement System

The railroad retirement system is a federally legislated program which provides retirement, disability and survivor annuities to workers whose employment was connected with the railroad industry for at least 10 years. The system, in existence since 1936, was substantially modified by the Railroad Retirement Act of 1974 (RRA), which provided for closer coordination with the social security system. Credits are primarily secured by employment in the railroad industry, although any social security credits earned during employees' work careers are included in the benefit computation. Benefits are financed through a combination of employee, employer, and Federal Government contributions.

Retirement and survivor benefit payments during fiscal year 1986 totaled $6,330 million. These payments were made to approximately 1,007,000 beneficiaries. Retired employee and spouse annuitants constituted 684,000 of these beneficiaries and received $4,608 million. Survivor beneficiaries received a total of $1,721 million, consisting of $1,712 million in monthly benefits and $10 million in lump-sum payments.

Jurisdiction

In the House of Representatives, the jurisdiction over the railroad retirement system is divided between two standing committees. Under the rules of the House, the Energy and Commerce Committee has jurisdiction over "railroads, including railroad labor, railroad retirement and unemployment, except revenue measures related thereto." That committee therefore has jurisdiction over the Railroad Retirement Act, which contains the substantive legislation relating to railroad retirement legislation. The Committee on Ways and Means has jurisdiction over all revenue measures, including the Railroad Retirement Tax Act (Chapter 22 of the Internal Revenue Code of 1954). Within the Committee on Ways and Means jurisdiction over employment taxes and trust fund operations relating to the railroad retirement system lies within the Subcommittee on Social Security.

Historical Development

In the final quarter of the 19th century, railroad companies were among the largest in America. It was in the rail industry that the first industrial pension was established in 1874. By the mid-1920's more than 80 percent of all rail workers were covered by pension plans.

In the early 1930's these pension plans began to face enormous financial problems. The commercial success of the rail industry peaked in the period between 1900 and 1920, and rail employment decreased significantly in the 1920's.

Rail pension plans were for the most part poorly constructed. There was no regulation of plan terminations, which were frequent. Pension funds were chronically underfinanced, and most could not stand the financial exigencies of the depression.

These problems plus a tradition of Federal regulation of the railroads led to the enactment of the Railroad Retirement Act of 1934.

The original railroad retirement system was structured to provide annuities to retirees based on rail earnings and length of service. Benefits were disbursed for retirees at age 65, although workers with 30 years of service could retire at 60, with a reduction in payments. The original disability provisions were very stringent, and little was provided for dependents, and nothing for spouses.

Throughout its history, the railroad retirement system has been modified many times by Congress. In the late 1940's and 1950's benefits were liberalized, and the railroad retirement system was brought into closer conformity with social security. For instance, in 1946, benefits were extended to survivors, based on combined railroad and social security covered employment. This extension represented a concern for the social goal of providing income security in old age, or social insurance, rather than simply rewarding career performance.

In the past decade and a half, the railroad retirement system has encountered recurrent financial crises as a result of employment declines in the industry, inflation, and the increase in the number of beneficiaries. Major legislation was enacted in 1974, 1981, and 1983 to prevent the system from becoming insolvent.

Recent Legislation

In 1981, the Committee on Ways and Means included in the Economic Recovery Tax Act (Public Law 97-34) payroll tax rate increases for both employers and employees and a limited authority to borrow against the financial interchange with social security. The Committee on Energy and Commerce also included this borrowing authority, benefit changes, and a "benefit preservation mechanism" in the 1981 Reconciliation Act (sec. 1126(b), Public Law 97-35).

Under this mechanism, as in effect prior to the passage of Public Law 98-76, the Railroad Retirement Board (RRB) must report to Congress and the President on or before April 1 of any fiscal year in which the Board determines that it would borrow 50 percent or more of the amount available under the borrowing authority. This report must include, among other things, an estimate of the first year in which the borrowing authority would be exhausted and benefits would have to be reduced in the absence of "funding adjustments."

A further requirement of this benefit preservation mechanism is that within 180 days of the submission of this report, the Board must issue regulations and publish them in the Federal Register. The regulations must provide for reducing benefits to the extent necessary so that payments would not exceed the funds available. The regulations are also to provide that non-Social Security benefits (tier II) are to be reduced first.

On February 18, 1983, the RRB issued the first report required under section 22. That report indicated that in the absence of corrective action, fiscal year 1984 would be the first year in which insufficient funds would preclude the payment of full benefits to all beneficiaries throughout the year. The regulations required to be promulgated were published in the Federal Register on July 7, 1983. If they had been implemented, these regulations would have provided for a reduction of approximately 40 percent in tier II benefits, effective October 1, 1983.

As a result of substantial reductions in rail employment in the early part of the decade, the railroad retirement system was threatened with insolvency in 1983. In order to prevent financial crisis and to avoid the benefit reduction which would have been required as a result of the benefit preservation mechanism, Congress enacted the Railroad Retirement Solvency Act of 1983 (Public Law 98–76). This package contained tax increases, benefit reductions, and direct Federal assistance.

A summary of those railroad retirement provisions included in Public Law 98–76 which were reported by the Committee on Ways and Means include the following:

(1) Provide three equal tax rate increases for both employer (1 percent) and employees (0.75 percent), effective on January 1, 1984, January 1, 1985, and January 1, 1986.

(2) Apply railroad retirement tier I and II taxes to an annual amount equal to 12 times the current applicable monthly wage base. (Effective on January 1, 1985.)

(3) Tax vested dual benefits as a private pension and deposit proceeds to the Railroad Retirement Account until fiscal year 1989. Beginning in fiscal year 1989, the proceeds from the tax will be deposited in the Dual Benefits Payments Account. (Effective with benefits received on or after January 1, 1984.)

(4) Tax tier II benefits as a private pension and return proceeds to the Railroad Retirement Account until the earlier of fiscal year 1989; or the time when the amount of revenue transferred under this provision equals $877 million. Beginning in fiscal year 1989 the proceeds from the tax would be deposited in the general fund. (Effective with benefits received on or after January 1, 1984.)

(5) Accelerate the employer payroll tax deposit schedule, to conform to the FICA deposit schedule. (Effective on January 1, 1984.)

(6) Create a "Social Security Equivalent Benefit Account" and deposit in the account all "social security equivalent" revenues. Pay all social security equivalent benefits out of the account. (Effective on October 1, 1984.)

(7) Provide that on July 1, 1985, and each subsequent July 1, the Railroad Retirement Board shall submit to the Congress a report on the actuarial status of the railroad retirement system and make any recommendation for financing changes that might be advisable, including adjustments in the level of tier II tax rates and the feasibility of diverting part of the employer portion of those rates to the Railroad Unemployment

Insurance Account to aid in repayment of its debt to the Railroad Retirement Account.[1]

The Consolidated Omnibus Budget Reconciliation Act of 1985 contained a provision to tax those tier I benefits that are more generous than Social Security (e.g., retirement benefits at age 60, occupational disability benefits) in the same fashion that tier II benefits are taxed.

Benefit Structure

The 1974 Railroad Retirement Act established three benefit components. The ongoing benefit system was divided into two "tiers," one of which roughly approximates social security (tier I), and the other, an industry staff retirement benefit (tier II). The third component, a vested dual benefit, preserved certain benefits for employees who had qualified for both railroad retirement and social security benefits prior to the 1974 Act.

Tier I

These benefits are based on the social security formula, using both the employee's combined railroad earnings and non-railroad social security covered earnings up to the social security maximum wage base. The tier I benefit is roughly equal to what the social security benefit would have been had the worker's railroad employment been covered by the social security program. Because the railroad retirement tier I benefit is based on both social security and railroad employment, any social security benefit to which the railroad retirement system beneficiary is also entitled is subtracted from the tier I benefit amount. Tier I benefits are adjusted for the cost-of-living by the same percentage as social security benefits. For the purposes of the Balanced Budget and Emergency Deficit Control Act, tier I benefits are exempt from automatic spending reductions.

Tier II

Tier II benefits are based on the employee's service in the railroad industry alone and are payable in addition to the tier I benefit amount. For current retirees, the tier II benefit is equal to seven-tenths of 1 percent of the employee's average monthly earnings in the 60 months of highest earnings, times the total number of years of railroad service, less 25 percent of any employee vested dual benefit also payable. Since 1985, tier II benefits are automatically adjusted annually on January 1 at a rate equal to 32.5 percent of the social security automatic cost-of-living adjustment. The 1986 tier II increase was suspended under the Balanced Budget and Emergency Deficit Control Act of 1985, but the Omnibus Budget Reconciliation Act enacted October 21, 1986 (Public Law 99–509) exempted future

[1] In addition to the payment of benefits, expenditures from the Railroad Retirement Account can also be made in the form of loans to the Railroad Unemployment Insurance Account. The authority of the Railroad Unemployment Insurance Account to borrow from the Railroad Account was to expire on September 30, 1985, but was extended. The borrowing authority was restored by the Federal budget reconciliation law enacted April 7, 1986 (Public Law 99–272). At the end of fiscal year 1986 the debt to the retirement account equalled $866 million; having increased from $783 million at the end of fiscal year 1985.

tier II COLA's from sequestration, under the Balanced Budget Act during the 5 fiscal years ending September 30, 1991.

Dual benefit payments

One of the chief purposes of the Railroad Retirement Act of 1974 was to coordinate railroad retirement and social security benefit payments to eliminate certain dual benefits considered to be a "windfall" for persons receiving benefits under both systems.

This "windfall" was a result of the fact that the total benefit these retirees received from both systems was higher than the benefit they would have received if their benefit was based on their total career earnings but paid only under railroad retirement. The total benefit was higher in these cases since the social security benefit formula favors workers who have low average earnings throughout their careers. Low career average earnings result from a career of low wages or from a relatively short career in social security covered employment. Workers who spend a period of time in employment not covered by social security, such as railroad employment, receive the benefit of this "tilt" in the benefit formula, even though they may very well not have had low career earnings.

As a result of the 1974 Act, "windfall" benefits were eliminated for any railroad employees not qualified for such benefits as of January 1, 1975. They were generally preserved for those individuals who were vested under both the railroad retirement and social security systems before 1975. These vested dual benefits are financed out of the general revenue fund through an annual appropriation rather than from the social security or railroad retirement trust funds. Under the Balanced Budget and Emergency Deficit Control Act of 1985, vested dual benefit payments were reduced during fiscal year 1986 as a controllable expenditure. The Omnibus Budget Reconciliation Act enacted in October 1986 exempted vested dual benefit payments from any future reductions under the Balanced Budget Act.

Supplemental annuities

These are provided under the 1974 Act equal to $23 for 25 years of service plus $4 for each additional year up to a maximum of $43 per month. However, as a result of the 1981 Omnibus Budget Reconciliation Act, employees hired after October 1, 1981 are not eligible for supplemental annuities when they retire.

Lump sum death benefits

These benefits are paid when there is no person eligible for a monthly survivor benefit in the month in which the worker died. Generally, 10 years of railroad service and a current connection with the railroad industry are required. For employees with 10 or more years of railroad service before 1975, the amount is based on the 1937 Act. For all other railroad workers, the amount is equivalent to that which would be paid under the Social Security Act (unless survivor benefits are paid).

Table 1 provides data concerning all railroad retirement benefits being paid at the end of fiscal years 1977–1986. Table 2 presents data on new awards for November 1986.

TABLE 1.—NUMBER AND AVERAGE AMOUNT OF RETIREMENT AND SURVIVOR ANNUITIES IN CURRENT-PAYMENT STATUS AT END OF YEAR, FOR SELECTED YEARS, BY TYPE OF ANNUITANT

Fiscal year	Total	Type of beneficiary										
		Retired employees			Spouses	Divorced spouses	Aged widows	Disabled widows	Widowed mothers	Divorced and remarried widows	Children	Parents
		Age	Disability	Supplemental								
Number at end of year:												
1971	1,067,121	348,737	95,364	81,611	212,075	.....	278,741	2,972	8,076	.....	39,096	449
1975	1,160,312	359,826	101,677	141,525	219,644	.....	290,502	5,108	7,061	.....	34,670	299
1977	1,201,059	364,402	99,672	169,257	230,758	.....	292,653	6,206	6,298	.....	31,566	243
1978	1,203,895	361,760	98,253	176,271	232,472	.....	292,300	6,470	5,930	.....	30,224	215
1979	1,204,719	358,629	96,818	182,736	233,611	.....	292,073	6,770	5,406	.....	28,478	198
1980	1,203,006	355,983	95,218	188,111	233,916	.....	290,315	6,999	4,985	.....	27,288	189
1981	1,202,364	354,608	93,743	193,436	233,977	.....	288,606	7,249	4,478	.....	26,094	173
1982	1,200,427	352,609	92,146	197,885	234,009	(1)	286,193	7,376	4,053	(2)	22,172	158
1983	1,193,226	349,892	89,684	201,409	232,367	(1)	288,454	7,509	3,153	(2)	20,614	144
1984	1,182,606	345,842	87,924	202,055	228,978	1,455	279,383	7,425	2,908	7,276	19,226	134
1985	1,165,202	339,696	85,685	201,140	225,587	1,697	274,954	7,465	2,655	8,355	17,845	123
1986	1,151,861	335,126	83,888	200,534	222,742	1,900	270,696	7,471	2,536	9,360	17,488	120

TABLE 1.—NUMBER AND AVERAGE AMOUNT OF RETIREMENT AND SURVIVOR ANNUITIES IN CURRENT-PAYMENT STATUS AT END OF YEAR, FOR SELECTED YEARS, BY TYPE OF ANNUITANT—Continued

Fiscal year	Total	Type of beneficiary										
		Retired employees			Spouses	Divorced spouses	Aged widows	Disabled widows	Widowed mothers	Divorced and remarried widows	Children	Parents
		Age	Disability	Supplemental								
Average amount:												
1971	$201	$186	$65	$95	.....	$114	$115	$158	.....	$112	$110	
1975	329	309	62	153	.....	233	200	234	.....	206	187	
1977	387	355	57	178	.....	267	228	275	.....	248	223	
1978	417	380	55	191	.....	285	242	301	.....	269	241	
1979	461	419	54	210	.....	314	265	336	.....	300	273	
1980	526	477	53	236	.....	361	302	392	.....	349	310	
1981	579	525	52	251	.....	401	331	442	.....	393	357	
1982	641	576	51	280	[1]	430	354	475	[2]	399	368	
1983	663	593	50	287	[1]	432	355	475	[2]	394	367	
1984	682	609	49	293	$167	441	415	478	$269	400	369	
1985	711	639	49	305	174	455	427	487	284	415	375	
1986	745	674	48	317	179	472	439	498	299	427	379	

[1] Included with spouse annuities.
[2] Included with aged and disabled widow and widowed mother annuities.

Note.—Data exclude survivor (option) annuities. On September 30, 1986, there were 93 option annuities in current payment status averaging $95. Figures for widows include a small number of widowers.
Source: Railroad Retirement Board.

TABLE 2.—NUMBER AND AVERAGE AMOUNT OF NEW AWARDS BY BENEFICIARY TYPE, NOVEMBER 1986

	Number	Average amount
Employee annuities:		
Retired	1,272	$955
Disability (under age 65)	229	970
Supplemental	772	41
Spouse annuities	1,221	314
Divorced spouse annuities	44	196
Survivor benefits:		
Aged widows and widowers	829	527
Disabled widows and widowers	18	497
Widowed mothers and fathers	26	458
Divorced and remarried widows	97	334
Children	63	457
Parents		
Insurance lump sums	496	816
Residual payments	13	6,846
Total	5,080	

Source: Railroad Retirement Board.

Financing the Railroad Retirement System

Railroad retirement and survivor benefits are financed by six sources of income. These are (1) payroll taxes on railroad earnings paid by covered employees and employers up to a certain maximum wage base; (2) income from the social security financial interchange; (3) proceeds derived from the taxation of railroad retirement benefits; (4) appropriations from general revenues; (5) interest on investments; and (6) a cents-per-hour tax levied on carriers only.

Payroll Taxes

The primary source of income to the railroad retirement account is payroll taxes levied on covered employers and their employees. Currently, both employers and employees pay a "tier I" tax which is equivalent to the social security tax rate. In addition, a "tier II" tax is paid by both rail employers and employees. The 1987 annual tier I and tier II wage bases are $43,800 and $32,700, respectively.

The scheduled tax rates for both tier I and tier II are as follows:

	Tier I		Wage base	Tier II		Wage base	Combined	
	Employer	Employee		Employer	Employee		Employer	Employee
1975	5.85	5.85	$14,100	9.5	0	$14,100	15.35	5.85
1980	6.13	6.13	25,900	9.5	0	20,400	15.63	6.13
1984	7.00	[1] 7.00	37,800	12.75	2.75	.....	19.75	9.75
1985	7.05	7.05	39,600	13.75	3.50	.....	20.80	10.55
1986	7.15	7.15	42,000	14.75	4.25	.....	21.90	11.40
1987	7.15	7.15	43,800	14.75	4.25	32,700	21.90	11.40
1988	7.51	7.51	45,300	14.75	4.25	33,900	22.26	11.76
1989	7.51	7.51	47,400	14.75	4.25	35,400	22.26	11.76
1990	7.65	7.65	50,100	14.75	4.25	37,200	22.40	11.90

[1] A credit of 0.3 percent of wages will be allowed against the 1984 employee tax rate. Appropriation to the Social Security Equivalent Benefit Account will be based on the 7.00 percent rate.

The tier I wage base is generally identical with the social security wage law and automatically increases with wage growth in the economy.

The tier II wage base is equal to what the social security tax rate would have been without regard to the ad hoc increases in the taxable wage base which were provided by the Social Security Amendments of 1977 (Public Law 95–215).

Financial Interchange

The railroad retirement system and the social security programs have been coordinated financially since 1951. The purpose of the financial interchange is to place the social security trust funds in the same position they would have been in if railroad employment had been covered under social security since its inception.

TABLE 3.—AMOUNTS TRANSFERRED TO OR FROM (—) THE RAILROAD RETIREMENT ACCOUNT [1] AND THE VARIOUS SOCIAL SECURITY TRUST FUNDS IN FISCAL YEARS 1954 THROUGH 1986

[In millions of dollars]

	OASI	DI	HI	Total
Fiscal year:				
Through June 30, 1954	—21.1			—21.1
1955	—7.4			—7.4
1956	—5.2			—5.2
1957	—1.6			—1.6
1958	124.4			124.4
1959	282.0	—22.0		260.0
1960	318.4	—4.9		313.5
1961	331.7	5.1		336.9
1962	360.8	11.0		371.8
1963	422.5	19.6		442.1
1964	402.6	19.1		421.8
1965	435.6	23.6		459.3
1966	443.8	25.0		468.8
1967	508.0	30.6	—16.3	522.4
1968	437.6	20.4	—44.0	414.0
1969	491.5	21.3	—54.2	458.6
1970	578.8	10.4	—63.5	525.7
1971	613.0	13.2	—65.9	560.3
1972	724.3	24.2	—66.1	682.4
1973	783.0	19.5	—63.2	739.2
1974	908.6	22.3	—99.2	831.7
1975	981.8	28.5	—132.5	877.8
1976	1,212.3	26.4	—137.7	1,100.9
1977	1,207.8	—0.3	—142.9	1,064.7
1978 [2]	1,588.7	29.8	—213.7	1,404.7
1979	1,447.5	29.9	—191.1	1,286.3
1980	1,442.0	—12.1	—244.3	1,185.6
1981	1,584.9	29.4	—276.5	1,337.9
1982	1,793.3	26.4	—351.4	1,468.2
1983	2,250.8	27.8	—357.7	1,920.9
1984	2,404.0	21.6	—350.6	2,075.0
1985	2,310.2	42.7	—371.4	1,981.5
1986	2,585.1	67.7	—364.4	2,288.4
Total	28,939.9	556.5	—3,606.7	25,889.7

[1] Beginning in 1985, transfers are to or from the Social Security Equivalent Benefit Account.
[2] Includes transfers for July–September 1976 transition quarter.

Source: Railroad Retirement Board.

Note.—Detail may not add to totals because of rounding.

Generally, under the interchange, for a given fiscal year there is computed the revenue that would have been collected by the social security trust funds if railroad employment had been covered directly by social security. This amount is netted against the amount

of benefits social security would have paid to railroad beneficiaries based on railroad and nonrailroad earnings during that period. Where social security benefits that would have been paid exceed income to the trust funds that would have been due, the excess, plus an allowance for interest and administrative expenses, is transferred from the social security trust funds to the RRB's Social Security Equivalent Benefit Account. If income exceeds benefits, the transfer would be from the RRB's Social Security Equivalent Benefit Account to the social security trust funds. Before 1985, transfers were to or from the Railroad Retirement Account.

The determination of the amount to be transferred through the financial interchange for a given fiscal year is made no later than June of the year following the close of the preceding fiscal year. Table 3 shows the actual operation of the financial interchange as it relates to each of the three major social security trust funds.

In order to make available to the RRB's Social Security Equivalent Benefit Account funds from the forthcoming financial interchange on a more current basis, the Railroad Retirement Solvency Act of 1983 provided for transfers from general Treasury funds to the RRB's Social Security Equivalent Benefit Account for each month an amount equal to the social security level benefits paid from the account during the month less the social security level taxes received by the account in that month. The amount so transferred for a particular month is repaid when the social security system makes reimbursement for that month under the financial interchange program.

Taxation of benefits

Prior to 1984, railroad retirement benefits, with the exception of supplemental annuities, were not subject to Federal income taxation. However, as a result of the Railroad Retirement Solvency Act (Public Law 98–76) and the Social Security Act Amendments of 1983 (Public Law 98–21), certain tier I, and all tier II, and vested dual benefits received after December 31, 1983, are subject to taxation. The taxation provisions were subsequently amended by the Consolidated Omnibus Budget Reconciliation Act of 1985 and the Tax Reform Act of 1986. The budget reconciliation legislation limited the amount of tier I benefits treated as social security benefits for tax purposes to social security equivalent levels. The Tax Reform Act eliminated the 3-year recovery rule so that railroad retirement benefits exceeding social security equivalent levels are taxable immediately upon retirement, but previously taxed contributions are prorated over estimated life expectancies.

The social security equivalent portions of tier I benefits are taxed in a manner identical to social security benefits. The proceeds derived from the taxation of those tier I benefits which are equivalent to social security benefits will be deposited in the Social Security Equivalent Benefit Account and credited to the social security trust funds through adjustments in the financial interchange. Tier I benefits in excess of social security equivalent levels (early retirement benefits payable at ages 60–61 and occupational disability annuities) and tier II benefits are taxed in a manner identical to private pensions and the proceeds are deposited in the Railroad Retirement Account until fiscal year 1989 or until the amount of rev-

enue transferred under this provision equals $877 million, if earlier. Vested dual benefits are taxed as a private pension with the proceeds derived deposited in the Railroad Retirement Account until fiscal year 1989 and in the Dual Benefits Payments Account thereafter.

General revenue appropriations

Vested dual benefits are funded solely through general revenue appropriations. The Congress authorized such funding in the 1974 act through the year 2000. The total appropriated for the first 11 fiscal years for which these benefits were payable, 1976–1986, was $3,746 million.

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35) established a Dual Benefits Payments Account. Each year an amount which is appropriated for the payment of vested dual benefits will be placed into this account from which these payments will be made to beneficiaries. If the amount which is appropriated is insufficient to pay the full vested dual benefits to all eligible beneficiaries for a full year, the Railroad Retirement Board is authorized to prorate payments from the dual benefits account so that the amounts paid do not exceed the amounts appropriated.

In addition to amounts transferred to the Dual Benefits Payments Account annually through the regular appropriations process, the Railroad Retirement Solvency Act of 1983 provided for the appropriation of approximately $1.7 billion to the Railroad Retirement Account in three installments paid on Jan. 1, 1984, 1985, and 1986. These three appropriations were to reimburse the Railroad Retirement Account for prior shortfalls in the annual appropriations. The actual amounts received totaled $2.1 billion.

Interest from investments

Funds not needed immediately for benefit payments are invested in interest-bearing securities. During fiscal year 1986 the Railroad Retirement Account and Social Security Equivalent Benefit Account received $469 million in interest income from invested assets. This represents an annualized yield of 9.12 percent.

Cents-per-hour tax

A cents-per-hour tax is used to fund the supplemental annuity benefit. This tax is levied solely on employers. The rate is determined quarterly by the Railroad Retirement Board.

Financial Status of the Railroad Retirement Account

One of the most important factors affecting the financial status of the railroad retirement system is the level of employment in the industry. The recent history of industry employment follows:

TABLE 4.—HISTORIC LEVELS OF INDUSTRY EMPLOYMENT, 1940–86

[In thousands]

1940	1,195
1945	1,085
1950	1,421
1955	1,239
1960	909
1965	753
1970	640
1975	548
1976	540
1977	546
1978	542
1979	554
1980	532
1981	503
1982	440
1983	395
1984	396
1985	373
1986	339

Source: Railroad Retirement Board.

The Railroad Retirement Board annually prepares projections of the railroad retirement system's ability to pay benefits during the succeeding 5 years. The most important factor in a determination of the system's ability to pay benefits is the future level of railroad employment. The most recent projections prepared by the Board were developed on the basis of two assumptions regarding the course of railroad employment during the next 5 years. The higher assumption was developed as a reasonable estimate of future railroad employment. The lower assumption is deliberately pessimistic and represents a test of the system's ability to pay benefits if a sharper drop in employment takes place than is presently anticipated.

The assumptions, and the resulting December 31 fund balances, are shown in the following table. The employment assumptions are in thousands and the fund balances are in millions. Because of the interrelationships between the Railroad Retirement and Social Security Equivalent Benefit (SSEB) Accounts, balances of the latter account are independent of assumed employment levels, all variation in available funds being reflected in the Railroad Retirement Account. The results indicate that the system will be able to meet its obligations through 1992, even under a pessimistic employment assumption.

TABLE 5.—TRUST FUND BALANCES UNDER THE COMBINED RAILROAD RETIREMENT AND SOCIAL SECURITY EQUIVALENT BENEFIT ACCOUNTS (END OF YEAR) UNDER TWO EMPLOYMENT ASSUMPTIONS

[Dollars in millions, other amounts in thousands]

Calendar year	Employment assumption		SSEB balance	RRA balance, employment assumption	
	I	II		I	II
1987	327	320	$107	$6,317	$6,269
1988	316	306	175	6,673	6,548
1989	305	292	249	6,920	6,691
1990	294	279	329	7,051	6,695
1991	284	266	415	7,050	6,534
1992	274	254	509	6,960	6,255

The Board is also required to submit to Congress every year a report on the railroad retirement system's actuarial status, including recommendations for financing changes. The report issued in 1986 found that funding is considered adequate to assure payment of all benefits due during the balance of this century. Given the continuing decline in railroad employment, the system may require further financial amendments to assure adequate funds in the next century. In the Board's most recent actuarial report to Congress, a majority of the Board members recommended consideration of an increase in payroll taxes to provide for the system's solvency in the next century. The President has since recommended a 3.0 percent increase in the tier II payroll tax rate (1.5 percent increase effective January 1, 1988, and 1.5 percent effective January 1, 1989) as a prudent course to follow in order to forestall financing problems in the future.

Section 16. Railroad Unemployment Compensation System

The railroad unemployment compensation (RRUC) system has been in existence since 1938. Railroad workers were initially covered by the unemployment provisions of the Social Security Act of 1935. The Railroad Unemployment Insurance Act (Public Law 75–722) was passed in 1938 to provide a uniform unemployment insurance system for all railroad workers, regardless of the State in which they worked or lived. This was done largely because of administrative problems at that time in handling claims for railroad workers who earned wages in a number of different States and as a result of the railroad unions' desire that individuals throughout the industry be treated the same for purposes of unemployment compensation.

Benefits and Eligibility Requirements

A worker must have at least $1,500 of creditable railroad earnings in the base year to qualify for RRUC benefits. In addition, if the worker has not worked in the railroad industry previously, he must have railroad earnings in at least 5 months of the base year. (The base year is the calendar year before the beginning of the benefit year which begins on July 1 for all claimants.) The first $600 of railroad earnings in each month are creditable toward the qualifying earnings requirement. Up to $775 per month in the base year is creditable toward the maximum benefit.

An unemployed worker who meets the qualifying requirements can receive RRUC benefits for each "day of unemployment." An individual, however, cannot receive benefits for more than 10 days of unemployment in any 2-week period. In order to receive a daily benefit, a worker must be able to work and be available for railroad work. He must also register for work at the railroad unemployment office.

A qualified, unemployed railroad worker may receive a daily unemployment compensation benefit equal to 60 percent of his last daily rate of pay in the base year, up to a maximum of $25. The minimum daily benefit is $12.70. The equivalent weekly RRUC benefit ranges from $63.50 to a maximum of $125 (5 times the $25 daily payment). The weekly maximum has been $125 since 1976. Railroad unemployment and sickness benefits were reduced by 7.4 percent during August and September 1986 under the Balanced Budget and Deficit Reduction Act of 1985 (Gramm-Rudman).

The nominal average weekly amount in a benefit year has grown in spurts from $8 in 1940 to $125 in 1986. The average weekly benefit amount in constant 1985 dollars, however, declined by 44 percent, from a peak of $224 in 1976 to $125 in 1985. Moreover, the 1985 level was lower than the constant dollar level as long ago as 1958 when it was $147.

The program offers "normal" benefits and two categories of "extended" benefits. The duration of benefits varies by worker. Qualified workers can receive normal benefits for up to 130 days or 26 weeks, but the total may not exceed their creditable wages in the base year. Two groups of workers may get extended benefits:

(1) Workers with at least 15 years of railroad service may get up to 130 additional days, or up to an additional 26 weeks of benefits beyond the normal 26 weeks; and

(2) Workers with at least 10 but fewer than 15 years of railroad service may receive up to 65 additional days or 13 additional weeks.

TABLE 1.—PERMANENT BENEFITS UNDER THE RAILROAD UNEMPLOYMENT COMPENSATION PROGRAM AS OF JUNE 30, 1986

Qualifying wages	$1,500.
Daily benefit rate:	
Basic rate	60 percent of daily rate of pay.
Maximum	$25.00.
Minimum guarantee	$12.70.
Maximum normal benefits:	
For a 1-week period	$125.00.
For benefit year:	
Duration	130 compensable days.
Amount	$3,250.[1]
Maximum extended benefits:	
10–14 years service:	
Duration	65 compensable days.
Amount	$1,625.
15 or more years service:	
Duration	130 compensable days.
Amount	$3,250.

[1] Not to exceed the employee's taxable earnings in the base year counting earnings up to $775 a month.

Source: U.S. Railroad Retirement Board Handbook on Railroad Retirement and Unemployment Insurance Systems. January 1987.

The average duration of benefits fluctuates closely with the unemployment rate. In the 1940 through 1986 period, it ranged from 7.4 to 19.1 weeks and averaged 11.8.

In 1946, a program of cash sickness benefits was established for railroad workers as part of the unemployment compensation system. Sickness benefits are financed out of the same employer paid payroll taxes used to finance unemployment compensation benefits. A qualified railroad worker may receive sickness benefits if he files a "statement of sickness" signed by a doctor and mailed within 7 days of the first day for which a day of sickness is claimed.

A rail worker who is unemployed due to a strike legally authorized under the Railway Labor Act of 1926 can receive unemployment compensation benefits after a 14 day waiting period. Unemployment benefits cannot be paid to individuals participating in a

strike that is in violation of the Railway Labor Act, and is therefore "illegal." Individuals who are unemployed due to an "illegal" strike, but who are not actually participating in the strike, are eligible for unemployment compensation benefits but are subject to the 14 day waiting period.

Total expenditures for unemployment and sickness payments were $188 million in benefit year 1986, which was 1.5 percent of total wages paid by the industry during the same period. This compares to a peak of 5.1 percent in 1959. It is also much lower than in benefit year 1983, a recession year, when the figure was 3.9 percent. Since the beginning of sickness benefits, unemployment benefits have composed about two-thirds of total payments. In 1986, unemployment benefits accounted for 75 percent of the total.

Benefit payments vary directly with the insured unemployment rate, covered employment, average weekly benefit amount, and average duration of benefits. The insured unemployment rate is the percentage of workers qualified under the RRUC program who drew benefits in a particular benefit year. The railroad insured unemployment rate has been high and volatile since the beginning of the RRUC program, averaging 14 percent. Since 1946 it has ranged from a relatively low 7 percent to 30 percent in benefit year 1983.

Changes in covered employment have short-run and long-run effects on the RRUC program. In the short run, when layoffs cause employment to decline, the insured unemployment rate and benefits paid increase. In the long run, when employers have fewer workers to layoff, benefits decline and the program shrinks. Since the peak of 1,680,000 workers in calendar year 1945, railroad employment declined to 339,000 in 1986. Two-thirds of this decline occurred in the 18 years between 1945 and 1963. In the 23 years since then, the remaining one-third of the decline occurred. In other words, the average annual rate of decline through 1963 was 49,000, but after 1963 it was 20,000.

Taxes

The railroad unemployment and sickness benefit program is financed by payroll taxes paid by railroad employers. The employees themselves do not contribute. Effective January 1, 1984, the taxable earnings base is the first $600 of each employee's monthly earnings.

The payroll tax rate is determined from a schedule in the Railroad Unemployment Insurance Act and may vary from 0.5 percent to 8 percent. This method of financing is, in effect, an experience rating plan on an industrywide basis. For any particular calendar year, the tax rate depends on the balance in the Railroad Unemployment Insurance Account, including the balance in the Railroad Unemployment Insurance Administration Fund, on the preceding September 30, as shown in the following schedule:

Balance to credit of Railroad Unemployment Insurance Account on September 30	Rate for next calendar year (percent)
$300,000,000 or more	0.5
$200,000,000 or more but less than $300,000,000	4.0
$100,000,000 or more but less than $200,000,000	5.5
$50,000,000 or more but less than $100,000,000	7.0
Less than $50,000,000	8.0

Railroad unemployment taxes are collected by the Railroad Retirement Board. Of each year's tax receipts, an amount equal to 0.5 percent of taxable payroll is set aside for administration. Over the past several years, additional funds have been transferred from the Railroad Unemployment Insurance Account because low employment levels have not generated sufficient funds to cover administrative costs. As a result, annual appropriations from general revenues for administration of the unemployment and sickness program are not required. Excess funds allocated but not needed for administration are transferred to the Railroad Unemployment Insurance Account at the end of each fiscal year.

The Railroad Unemployment Insurance and Railroad Unemployment Insurance Administration Accounts are part of the Federal Unemployment Trust Fund. This trust fund has 53 State UC program accounts, 4 Federal accounts, and the 2 railroad accounts.

Despite occasional increases in the tax rates and taxable wage base, taxes and reserves have not covered RRUC unemployment and sickness benefit payments in 20 of the last 27 years. The tax rate on taxable wages increased to 8 percent in 1977 and 1978; dropped to 7.0 percent in 1979 and to 5.5 percent in 1980; and rose to 8.0 percent in 1981 through 1986. The monthly taxable wage base was increased from $300 to $350 in 1954; to $400 in 1959 and to $600 in 1984. As a result, the taxable wage base in constant dollars had declined dramatically. The monthly taxable wage base would have been approximately $2,300 in 1985 if Congress had maintained the real value of the $300 taxable wage base in effect in 1940. In other words, the industry has taxed progressively less of total annual wages paid. The ratio of taxable wages to total wages had declined from 99 percent in 1940 to only 16 percent in 1983. This figure rose to 23 percent in 1984 and 1985 with the introduction of the higher taxable wage base.

Since 1959, the railroad unemployment trust fund has been able to borrow funds from the railroad pension fund when employer taxes have not been sufficient to cover the costs of unemployment and sickness benefits. This borrowing authority expired on December 19, 1985 but was subsequently restored by the April 1986 budget reconciliation legislation. In the past, borrowed funds have been repaid. The RRUC program became depleted for the first time in 1960 after a long decline from peak reserves of nearly 18 percent of total annual wages in 1948. By 1963, it owed the retirement account $314 million, or 5.9 percent of total annual wages paid in the

industry that year. The program gradually recovered during the 1960s until it had positive reserves again in 1974. Thereafter, the reserves were depleted again in 1976 through 1978, and 1981 through 1985.

A rapid decline in 1981 and 1982 in railroad employment resulted in substantial borrowing from the pension system. By December 31, 1986, the RRUC program owed the railroad pension system $845 million. This is about 7 percent of total wages projected to be paid in the industry that year.

Prior to the passage of the Railroad Retirement Solvency Act of 1983 there were no specific requirements or procedures for the repayment of funds the RRUC system borrowed from the rail pension system. In general, loans have been repaid whenever, and to the extent, RRUC program tax receipts in a year exceeded that year's benefit, administration and debt service costs.

The Solvency Act established, as part of the Federal Unemployment Tax Act (FUTA), a railroad unemployment repayment tax. This repayment tax operates similar to the FUTA tax that is paid by non-railroad industries in States with overdue Federal unemployment loans. Beginning July 1, 1986, rail employers paid this tax on annual wages paid to each employee through the end of the year. The tax base is $7,000 per employee for calendar years 1987–89, and $5,250 for the first 9 months of 1990. The April 1986 budget reconciliation legislation, which restored the authority to borrow funds from the Railroad Retirement Account, also increased the repayment tax rates originally set in the Solvency Act. The original 2 percent rate for 1986 was increased to 4.3 percent and the rates for 1987 and 1988 were increased to 4.7 percent and 6 percent, from 2.3 percent and 2.6 percent, respectively. The original rates of 2.9 percent for 1989 and 3.2 percent for 1990 were not changed. The revenue raised by this tax can be used only to repay loans (principal and interest) from the rail pension system made prior to September 30, 1985. The tax expires on September 30, 1990, at which time the balance owed the rail pension system will be approximately $600 million.

The budget legislation also provided for an automatic unemployment insurance surtax on rail employers of 3.5 percent on annual wages up to $7,000 in the event further borrowing from the Railroad Retirement Account is necessary. The surtax will be in effect for a calendar year if any new unemployment insurance loans are not repaid with interest by the preceding September 30.

PART 3

REVENUES

Section 1. Summary Information
Section 2. Bibliographic Information

Section 1. Summary Information

This part provides summary information regarding Federal revenues and the U.S. tax system. Most, but not all, budget receipts are derived from taxes. Table 1 shows budget receipts, by source, for recent years. Table 2 indicates the relative significance of the major types of receipts. Over recent years the relative significance of corporate income taxes has declined; social insurance taxes and contributions have increased as a share of the total.

Table 3 provides information on the number of tax returns, by type filed in 1981 through 1985. The gross amount of taxes collected exceeds net collections by the amount of refunds. As indicated in table 4, individual income tax refunds during fiscal year 1986 were 17 percent of gross collections.

The sources of income reported on individual income tax returns for 1983 and 1984 are listed in table 5 along with additional summary information. Nearly 100 million individual income tax returns were filed for the 1984 taxable year. The number of exemptions listed on these returns, 241 million, approximately equaled the U.S. population, though the extra exemptions for those over 65, certain students, and the blind result in the double counting of certain individuals in arriving at the total number of exemptions claimed. Wages and salaries represented about 84 percent of reported adjusted gross income. Tax liabilities represented about 14 percent of adjusted gross income.

About 38 percent of all taxpayers itemized their deductions on individual income tax returns for 1984 (see table 6 for a comparison with prior years). These deductions, by type, are shown in table 7. Statutory adjustments used in calculating tax liabilities for 1984 are shown in table 8. Information on tax credits claimed by individuals is shown in table 9.

The distribution of tax liabilities and income by adjusted gross income class, based on information contained on 1984 tax returns, is displayed in table 10.

The most recently published information for corporate income tax returns is summarized in table 11. Of the 2.3 million returns filed by regular, active corporations for 1983, only 41 percent had a tax liability, after accounting for tax credits and carryover losses. Slightly fewer than 1 million corporations paid total taxes of $51.9 billion.

The term "tax expenditures" is widely used to denote the decrease in individual and corporate income tax liabilities that result from provisions in income tax laws and regulations that provide economic incentives to the private sector or tax relief to particular kinds of taxpayers. These tax provisions take the form of exclusions, credits, deductions, preferential tax rates, or deferrals of tax liability. Table 12 presents the most recent tax expenditure estimates for fiscal year 1986. For a more complete discussion of the

tax expenditure concept, the source listed in the table should be consulted. The Tax Reform Act of 1986 will significantly alter tax expenditures for future years both by repealing or otherwise altering particular provisions and by reducing tax rates.

TABLE 1.--BUDGET RECEIPTS BY SOURCE, 1978–86

[In billions of dollars]

Description	1978	1980	1982	1984	1986
RECEIPTS BY SOURCE					
Individual income taxes	181.0	244.1	297.7	298.4	349.0
Corporation income taxes	60.0	64.6	49.2	56.9	63.1
Social insurance taxes and contributions:					
Employment taxes and contributions	103.9	138.7	180.7	209.7	255.1
Unemployment insurance	13.8	15.3	16.6	25.1	24.1
Other retirement contributions	3.2	3.7	4.2	4.6	4.7
Total social insurance taxes and contributions	121.0	157.8	201.5	239.4	283.9
On-budget	(35.6)	(44.6)	(58.0)	(73.3)	(83.7)
Off-budget	(85.4)	(113.2)	(143.5)	(166.1)	(200.2)
Excise taxes:					
Alcohol	5.5	5.6	5.4	5.3	5.8
Tobacco	2.4	2.4	2.5	4.7	4.6
Highway	6.9	6.6	6.7	11.7	13.4
Airport and airway	1.3	1.9	0.1	2.5	2.7
Windfall profit tax		6.9	18.4	8.9	2.3
Other	2.2	0.9	3.1	4.2	.....
Total excise taxes	18.4	24.3	36.3	37.4	32.9
Estate and gift taxes	5.3	6.4	8.0	6.0	7.0
Customs duties	6.6	7.2	8.9	11.4	13.3
Miscellaneous receipts	7.4	12.7	16.2	17.0	19.9
Total receipts	399.6	517.1	617.8	666.5	769.1
On-budget	(314.2)	(403.9)	(474.3)	(500.4)	(568.9)
Off-budget	(85.4)	(113.2)	(143.5)	(166.1)	(200.2)

Source: The United States Budget in Brief, Fiscal Year 1988, Executive Office of the President, Office of Management and Budget, p. 100.

TABLE 2.—BUDGET RECEIPTS BY SOURCE, 1978 AND 1986

	1978		1986	
	Amount (billions)	Percent of total	Amount (billions)	Percent of total
Individual income taxes	181.0	45.3	349.0	45.4
Corporation income taxes	60.0	15.0	63.1	8.2
Total social insurance taxes and contributions	121.0	30.3	283.9	36.9
Total excise taxes	18.4	4.6	32.9	4.3
Estate and gift taxes	5.3	1.3	7.0	0.9
Customs duties	6.6	1.7	13.3	1.7
Miscellaneous receipts	7.4	1.9	19.9	2.6
Total budget receipts	399.6	100	769.1	100

Source: The United States Budget in Brief, Fiscal Year 1988, Executive Office of the President, Office of Management and Budget, p. 100.

TABLE 3.—NUMBER OF RETURNS FILED, BY PRINCIPAL TYPE OF RETURN, CALENDAR YEARS 1981–85

[In thousands]

Type of return	1981	1982	1983	1984	1985
Income tax returns:					
Individual	94,018	95,481	95,284	96,288	99,426
Declaration of estimated tax	30,347	31,863	33,080	32,597	34,225
Fiduciary	1,197	1,964	1,994	2,013	2,053
Partnership	1,467	1,561	1,586	1,663	1,717
Corporation	2,806	2,950	3,078	3,129	3,303
Total income tax returns	130,555	133,819	135,022	135,690	140,724
Estate tax	146	135	111	90	77
Gift tax	199	99	91	87	95
Employment tax	26,063	25,835	25,537	26,133	26,824
Exempt organization	409	444	437	393	431
Employee plans	790	1,021	752	955	644
Alcohol, tobacco, and firearms	522	233	582	552	397
Excise tax	971	1,172	1,010	694	796
Supplemental documents	6,817	7,556	7,602	7,887	8,198
Non-Master file returns	56	55	30	32	33
Grand total	166,528	170,369	171,174	172,512	178,219

Source: Commissioner of Internal Revenue, Annual Report, 1981, 1982, 1983, 1984, and 1985.

TABLE 4.—INCOME TAX GROSS COLLECTIONS, REFUNDS, AND NET RECEIPTS, 1986

[In millions of dollars]

Individual income tax:	
Gross collections	420,832
Withheld	(314,838)
Other	(105,994)
Refunds	−71,873
Net receipts	348,959
Corporation income taxes:	
Gross collections	80,442
Refunds	−17,298
Net receipts	63,143

Source: Executive Office of the President, Office of Management and Budget, Budget of the U.S. Government, Fiscal Year 1988, p. 6c–24.

TABLE 5.—INDIVIDUAL INCOME TAX—SOURCES OF INCOME AND SELECTED TAX ITEMS, 1983 AND 1984

[In billions of dollars except as noted]

Items	1983	1984
Number of returns, total (millions)	96.3	99.4
Taxable	78.0	81.6
Nontaxable	18.3	17.8
Number of exemptions (millions)	234.4	240.9
Adjusted gross income less deficit	1,942.6	2,139.9
Sources of income:		
Salaries and wages	1,644.6	1,807.1
Pensions and annuities in adjusted gross income	69.8	80.4
Business and profession net profit less loss	60.4	70.8
Farm net profit less loss	−9.3	−13.1
Partnership and S corporation: net profit less loss	−.5	−2.3
Sales of capital assets: net gain less loss	49.4	54.5
Dividends in adjusted gross income	48.6	48.6
Interest received	153.8	176.4
Rents and royalties: net income less loss	−5.4	−9.5
Total statutory adjustments	81.4	89.7
Total deductions	448.7	[1] 499.6
Total itemized deductions	309.6	358.9
Taxable income	1,544.9	1,701.4
Income tax before credits	279.8	306.7
Total credits	8.2	9.3
Income tax after credits	271.7	297.4

[1] Includes total itemized deductions, charitable contributions for nonitemizers, and zero bracket amount on nonitemized deductions.

Source: U.S. Department of the Treasury, IRS, Statistics of Income, Individual Income Tax Returns, 1984.

TABLE 6.—INDIVIDUAL INCOME TAX RETURNS WITH ITEMIZED DEDUCTIONS, 1960–84

[In millions]

	Total individual returns [1]	Returns with itemized deductions	
		Number	Percent of total
1960	61.0	24.1	39.5
1965	67.6	27.9	41.3
1970	74.3	35.4	47.6
1972	77.6	27.0	34.8
1973	80.7	28.0	34.7
1974	83.3	29.6	35.5
1975	82.2	26.1	31.8
1976	84.7	26.0	30.7
1977	86.6	22.9	26.4
1978	89.9	25.8	28.7
1979	92.6	26.5	28.6
1980	93.6	28.8	30.8
1981	95.4	31.6	33.1
1982	94.8	33.2	35.0
1983	96.3	35.2	36.6
1984	99.4	38.2	38.4

[1] Through 1970, excludes returns with no adjusted income; thereafter includes returns with no adjusted income.

Source: Statistical Abstract of the United States 1980, p. 269, and U.S. Department of Treasury, Internal Revenue Service, SOI Bulletin, Vol. 1, No. 3, Winter 1981-82 Statistics of Income, Individual Income Tax Returns, 1984.

TABLE 7.—INDIVIDUAL INCOME TAX—ITEMIZED DEDUCTIONS BY TYPE, 1984

	Number of returns (millions)	Amount (billions)
Medical and dental	10.7	$21.5
Taxes paid	37.9	115.2
Contributions	34.6	42.1
Interest	34.5	158.2
Miscellaneous deductions	31.5	21.0
Net casualty or theft loss	.2	.9
Total	38.2	358.9

Source: U.S. Department of the Treasury, Internal Revenue Service, Statistics of Income, Individual Income Tax Returns, 1984.

TABLE 8.—INDIVIDUAL INCOME TAX—STATUTORY ADJUSTMENTS BY TYPE, 1984

	Number of returns (millions)	Amount (billions)
Moving expenses	1.7	$4.4
Employee business expense	7.6	19.3
Payments to an IRA	15.2	35.4
Payments to a Keogh plan	.6	4.1
Forfeited interest penalty	.7	.2
Alimony paid	.7	3.9
Deduction for working married couple	24.1	22.4
Other	.1	.1
Total	37.0	89.7
Note: Contributions deduction for nonitemizers	22.9	1.1

Source: U.S. Treasury, Internal Revenue Service, Statistics of Income, Individual Income Tax Returns, 1984.

TABLE 9.—INDIVIDUAL INCOME TAX—TAX CREDITS BY TYPE, 1984

	Number of returns (millions)	Amount (billions)
Child care credit	7.5	$2.6
Earned income credit	2.3	.3
Credit for the elderly and disabled	.5	.1
Business credit	4.5	4.4
Foreign tax credit	.4	.7
Political contributions credit	5.1	.3
Residential energy credit	2.7	.6
Other credits	.1	.2
Total	20.5	9.3

Source: U.S. Treasury, Internal Revenue Service, Statistics of Income, Individual Income Tax Returns, 1984.

TABLE 10.—RETURNS, ITEMIZERS, ADJUSTED GROSS INCOME, AND TAX LIABILITIES, BY ADJUSTED GROSS INCOME CLASS, 1984

Adjusted gross income	Number of returns (millions)	Percentage itemizing deductions	Adjusted gross income		Total income tax [1]		Tax as a percent of adjusted gross income
			Billions	Percent	Billions	Percent	
No A.G.I	1.0	NA	—$33.3	—1.6	$0.4	0.1	NA
Below $5,000	16.2	4.4	43.2	2.0	.5	.2	1.1
$5,000 under $10,000	16.4	10.0	123.2	5.8	5.4	1.8	4.4
$10,000 under $15,000	14.1	18.9	174.3	8.1	12.8	4.2	7.3
$15,000 under $20,000	11.5	31.8	199.8	9.3	18.5	6.1	9.3
$20,000 under $30,000	16.4	54.4	407.2	19.0	45.8	15.2	11.2
$30,000 under $50,000	17.0	83.2	649.1	30.3	87.3	28.9	13.4
$50,000 under $100,000	5.7	94.9	364.3	17.0	66.1	21.9	18.1
$100,000 under $200,000	.8	98.3	100.0	4.7	25.8	8.5	25.8
$200,000 and above	.2	98.9	111.9	5.2	40.4	13.4	36.1
Total	99.4	38.4	2,139.9	100.0	301.9	100.0	14.1

[1] Tax liabilities do not reflect the refundable portion of the earned income credit.

Source: U.S. Department of the Treasury, Internal Revenue Service, Statistics of Income, Individual Income Tax Returns, 1984.

TABLE 11.—CORPORATION INCOME TAXES—RETURN CHARACTERISTICS OF ACTIVE CORPORATIONS, 1983

Item	Number of returns	Amount [1]
Returns With and Without Net Income		
Number of returns	2,999,071	.....
Total receipts	2,876,363	7,135,494
Net income (less deficit)	2,978,213	188,314
Total income tax	1,194,062	92,219
Distribution to stockholders (except in own stock)	NA	128,299
Returns with net income	NA	119,197
Total assets	NA	10,201,084
Depreciable assets	NA	2,730,372
Depreciation deduction	NA	241,492
Returns With and Without Net Income, Other Than Forms 1120S and 1120—DISC [2]		
Number of returns	2,340,906	.....
Total receipts	2,263,105	6,791,943
Net income (less deficit)	2,324,755	173,220
Statutory special deductions, total	459,882	27,490
Net operating loss deduction	347,297	18,438
Total special deductions	124,002	9,052
Income subject to tax, total	1,145,101	218,667
Net long-term capital gain taxed at alternative rates	31,219	14,569
Income taxed at regular rates	1,144,057	204,097
Income tax, total	1,193,399	92,210
Regular and alternative tax	1,145,102	90,457
Personal holding company tax	2,623	6,196
Tax from recomputing prior-year investment credit	185,578	1,173,930
Additional tax for tax preferences	7,761	561
Foreign tax credit	5,448	19,951
U.S. possessions tax credit	509	1,583
Investment credit	769,485	16,145
Jobs credit	51,622	449
Research activities credit	9,749	1,277
Employee stock ownership credit	1,409	910
Total income tax after credits [3]	962,920	51,854

[1] Amounts in millions of dollars.

[2] The income of firms that file form 1120S (subchapter S corporations) is taxed at the individual level. The income of firms that file form 1120–DISC (domestic international sales corporations) generally is not included in taxable income.

[3] Credits include foreign tax, U.S. possessions tax, investment, jobs, nonconventional source fuel, alcohol fuel, research activities, employee stock ownership and orphan drug credits.

Note.—Detail may not add to total because of rounding; 1983 data are for corporations with taxable years beginning July 1982 through June 1983.

Source: U.S. Department of the Treasury, Internal Revenue Service, Statistics of Income 1983. Corporation Income Tax Returns.

TABLE 12.—TAX EXPENDITURES BY FUNCTION, 1986

[In millions of dollars]

Description	Corporations	Individuals
National defense:		
Exclusion of benefits and allowances to Armed Forces personnel		2,095
International affairs:		
Exclusion of income earned abroad by United States citizens		1,490
Exclusion of income of foreign sales corporations (FSC)	945	
Deferral of income from controlled foreign corporations	390	
General science, space, and technology:		
Expensing of research and development expenditures	635	25
Credit for increasing research activities	665	15
Suspension of the allocation of research and experimentation expenditures	260	
Energy:		
Expensing of exploration and development costs:		
Oil and gas	−1,110	600
Other fuels	35	
Excess of percentage over cost depletion:		
Oil and gas	200	905
Other fuels	235	15
Capital *ERR97*gains treatment of royalties on coal	10	75
Exclusion of interest on State and local industrial development bonds for certain energy facilities	−25	210
Residential energy credits:		
Supply incentives		315
Conservation incentives		190
Alternative, conservation and new technology credits:		
Supply incentives	265	15
Conservation incentives	*	*
Alternative fuel production credit	20	*
Alcohol fuel credit[1]	5	*
Energy credit for intercity buses	5	*
Special rules for mining reclamation reserves	35	5
Natural resources and environment:		
Expensing of exploration and development costs, nonfuel minerals	30	5
Excess of percentage over cost depletion, nonfuel minerals	300	15
Exclusion of interest on State and local IDBs for pollution control and sewage and waste disposal facilities	−305	1,905
Tax incentives for preservation of historic structures	150	280
Capital gains treatment of iron ore	*	15
Capital gains treatment of certain timber income	320	90
Investment credit and seven-year amortization for reforestation expenditures	40	*180
Agriculture:		
Expensing of certain capital outlays	75	425

TABLE 12.—TAX EXPENDITURES BY FUNCTION, 1986—Continued

[In millions of dollars]

Description	Corporations	Individuals
Treatment of loans forgiven solvent farmers as if insolvent		10
Capital gains treatment of certain income	35	605
Commerce and housing credit:		
Dividend exclusion		535
Exclusion of interest on small issue industrial development bonds	—400	3,175
Exemption of credit union income	195	.....
Excess bad debt reserves of financial institutions	480	.....
Exclusion of interest on life insurance savings		6,990
Deduction for special percentage of taxable income for life insurance companies	1,425	.....
Deductibility of interest on consumer credit		17,945
Deductibility of mortgage interest on owner-occupied homes		30,435
Deductibility of property tax on owner-occupied homes		8,560
Exclusion of interest on State and local housing bonds for owner-occupied housing	510	1,540
Exclusion of interest on State and local debt for rental housing	340	900
Capital gains (other than agriculture, timber, iron ore and coal)	2,190	28,820
Deferral of capital gains on home sales		1,985
Exclusion of capital gains on home sales for persons age 55 and over	—	925
Carryover basis of capital gains at death		4,940
Investment credit, other than ESOP's, rehabilitation of structures, energy property, and reforestation expenditures	17,305	2,750
Accelerated depreciation on rental housing	1,605	1,105
Accelerated depreciation of buildings other than rental housing	3,525	1,515
Accelerated depreciation of machinery and equipment	30,260	8,750
Safe harbor leasing rules	1,700	.....
Amortization of start-up costs	25	220
Reinvestment of dividends in public utility stock		280
Reduced rates on the first $100,000 of corporate income	4,655	.....
Transportation:		
Deferral of tax on shipping companies	130	.....
Exclusion of interest on State and local bonds for mass commuting vehicles	—5	50
Deduction for motor carrier operating rights	5	5
Community and regional development:		
Five-year amortization for housing rehabilitation	15	25
Investment credit for rehabilitation of structures (other than historic)	165	110

TABLE 12.—TAX EXPENDITURES BY FUNCTION, 1986—Continued

[In millions of dollars]

Description	Corporations	Individuals
Exclusion of interest on IDBs for airports, docks and sports and convention facilities	—70	655
Education, training, employment, and social services:		
Exclusion of scholarship and fellowship income		705
Exclusion of interest on State and local student loan bonds	80	280
Exclusion of interest on State and local debt for private nonprofit educational facilities	75	265
Parental personal exemption for students age 19 or over		1,220
Deductibility of charitable contributions (education)	480	1,160
Employer educational assistance		75
Exclusion of employer provided child care		20
Exclusion of employee meals and lodging (other than military)		850
Exclusion of contributions to prepaid legal services plan		60
Tax credit for ESOPs	1,165	.....
Credit for child and dependent care expenses		3,170
Targeted jobs credit	430	80
Deduction for two earner married couples		6,530
Deductibility of charitable contributions other than education and health	595	12,025
Deductions for certain adoption expenses		*
Exclusion of parsonage allowances		140
Health:		
Exclusion of employer contributions for medical insurance premiums and medical care		23,435
Deductibility of medical expenses		3,755
Exclusion of interest on State and local debt for private nonprofit health facilities	70	2,165
Deductibility of charitable contributions (health)	295	1,705
Tax credit for orphan drug research	*	.....
Social Security:		
Exclusion of untaxed social security benefits:		
Disability insurance benefits		1,195
OASI benefits for retired workers		13,275
Benefits for dependents and survivors		3,905
Income security:		
Exclusion of untaxed railroad retirement system benefits		450
Exclusion of workmen's compensation benefits		2,425
Exclusion of public assistance benefits		580
Exclusion of special benefits for disabled coal miners		145
Exclusion of untaxed unemployment insurance benefits		1,085
Exclusion of military disability pensions		120
Net exclusion of pension contributions and earnings:		
Employer plans		48,950
Individual Retirement Accounts		14,890
Keoghs		2,135

TABLE 12.—TAX EXPENDITURES BY FUNCTION, 1986—Continued

[In millions of dollars]

Description	Corporations	Individuals
Exclusion of other employee benefits:		
Premiums on group term life insurance		2,200
Premiums on accident and disability insurance		130
Income of trusts to finance supplementary unemployment benefits		30
Additional exemption for the blind		35
Additional exemption for elderly		2,750
Tax credit for the elderly and disabled		105
Deductibility of casualty losses		275
Earned income credit [2]		590
Veterans benefits and services:		
Exclusion of veterans disability compensation		1,700
Exclusion of veterans pensions		195
Exclusion of GI bill benefits		105
Exclusion of interest on State and local debt for veterans housing	75	225
General government:		
Credits and deductions for political contributions		260
General-purpose fiscal assistance:		
Exclusion of interest on public purpose State and local debt	2,170	7,420
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes		23,985
Tax credit for corporations receiving income from doing business in United States possessions	1,895	.....
Interest:		
Deferral of interest on savings bonds		820

*$2.5 million or less. All estimates have been rounded to the nearest $5 million.

[1] In addition, the exemption from the excise tax for alcohol fuels resulted in a reduction in excise tax receipts of $400 million in 1986.

[2] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays in 1986 was $1,415 million.

Source: Executive Office of the President, Office of Management and Budget, Special Analysis, Budget of the United States Government, fiscal year 1988, pp. G 42–46.

Section 2. Bibliographic Information

The following is a list, prepared with the assistance of the Congressional Research Service of the Library of Congress, of the principal sources for Federal tax statistics that are published by agencies of the Federal Government. The listings are arranged by publishing agency and include brief annotations where appropriate. The entries are principally printed material but include several computer tape filings.

I. Internal Revenue Service Publications

A. STATISTICS OF INCOME

The most detailed and comprehensive source for statistics on Federal taxes is published by the Internal Revenue Service in its *Statistics of Income* series, the components of which are usually published on an annual basis. The data in the reports are based on information on tax returns filed with the IRS. The reports consist of a wide variety of statistical information on income tax liabilities as well as characteristics of the income that generates the liabilities. The series began in 1916 and until 1954 reported statistics from all forms of tax returns in a single one or two volume series entitled *Statistics of Income.* Beginning with 1954 the series was separated into several components, according to the type of income tax returns on which the statistics were based.

Regular reports

The following *Statistics of Income* reports are generally issued annually.

U.S. Internal Revenue Service. Statistics of Income. 1916–53. Washington, U.S. Gov't. Print. Off., various dates.

———. Statistics of Income: Corporation Income Tax Returns. 1954– . Washington, U.S. Gov't. Print. Off., various dates.

———. Statistics of Income: Estate Tax Returns. 1954– . Washington, U.S. Gov't. Print. Off., various dates.

———. Statistics of Income: Individual Income Tax Returns. 1954– . Washington, U.S. Gov't. Print. Off., various dates.

———. Statistics of Income: Partnership Returns. 1977– . Washington, U.S. Gov't. Print. Off., various dates.

———. Statistics of Income: Sole Proprietorship Returns. 1977– . Washington, U.S. Gov't. Print. Off., various dates.

The following series was published on a regular basis for tax years 1957 through 1976, but was replaced, beginning in 1977 by the *Partnership* and *Sole Proprietorship* series, listed above.

———. Statistics of Income: Business Income Tax Returns, 1957/58–76. Washington, U.S. Gov't. Print. Off., various dates.

Supplemental reports

In addition to its regular series; the Internal Revenue Service published supplementary *Statistics of Income* reports containing a variety of tax statistics. The most recent of these reports are listed here.

U.S. Internal Revenue Service, Statistics of Income: Domestic International Sales Corporation Returns, 1972, 1973 and 1974. Washington, U.S. Gov't Print. Off., 1980.

———. Statistics of Income: Foreign Income and Taxes Reported on Individual Income Tax Returns, 1972–78. Washington, U.S. Gov't. Print. Off., 1981.

———. Statistics of Income: Foreign Tax Credit Claimed on Corporation Returns, 1974. Washington, U.S. Gov't. Print. Off., 1980.

———. Statistics of Income: Sales of Capital Assets Reported on Individual Income Tax Returns, 1973. Washington, U.S. Gov't. Print. Off., 1980.

———. Statistics of Income: Individual Retirement Arrangements, 1976. Washington, U.S. Gov't. Print. Off., 1980.

———. Statistics of Income: Private Foundations, 1974–78. Washington, U.S. Gov't. Print. Off., 1981.

———. Statistics of Income: U.S. Corporations and their Controlled Foreign Corporations, 1974–78. Washington, U.S. Gov't. Print. Off., 1981.

———. Statistics of Income: Foreign Income and Taxes Reported on U.S. Income Tax Returns, 1976–79. Washington, U.S. Gov't. Print. Off., 1982.

In addition to the reports cited above, the Internal Revenue Service publishes preliminary income tax data in its *Statistics of Income Bulletin*. This publication began in 1981 and is published on a quarterly basis.

B. OTHER INTERNAL REVENUE SERVICE PUBLICATIONS

U.S. Internal Revenue Service. Annual Report of the Commissioner of Internal Revenue and the Chief Counsel for the Internal Revenue Service. 1863/64—Washington, U.S. Gov't. Print. Off., various dates.

This annual document is in the nature of an administrative report. Accordingly, while it does contain relatively detailed statistics on taxes that overlap to some degree with the *Statistics of Income* series, its emphasis is different. Statistics reported include actual tax collections by type of tax rather than tax liabilities such as reported in *Statistics of Income*. Other administrative data such as refunds issued are also reported. Also, statistics are reported on a fiscal year basis rather than by tax year, as with the *Statistics of Income* series.

———. Income tax compliance research; estimates for 1973–1981. Washington, U.S. Internal Revenue Service, 1983.

This report presents estimates of income tax compliance in the United States for the period 1973 to 1981. These estimates indicate that more than 80 percent of tax due was voluntarily paid during those years; nevertheless, the tax gap was large and growing. Rates of correct voluntary reporting of taxable income were declining.

In addition to the above series, much of the raw data that appears in organized form in the *Statistics of Income* series is available in the form of computer tape files available on a reimbursable basis from the Statistics of Income Division, Internal Revenue Service.

II. Department of the Treasury Publications

The Department of the Treasury issues several regular reports that contain statistics on Federal taxes. Several of these reports contained statistics on tax receipts in the context of Federal receipts as a whole. The Treasury Department also issues reports on several specific provisions of the Internal Revenue Code, providing a wide variety of statistics.

U.S. Department of the Treasury. Annual Report of the Secretary of the Treasury on the State of the Finances, 1815– . Washington, U.S. Gov't Print. Off., various dates.

The Annual Report contains a brief section on tax receipts by type of tax, shown in the context of budget receipts as a whole. The statistics are reported on a fiscal year basis. Annual reports have not been published since 1980.

———. High Income Tax Returns. 1974/75–1975/76. Washington, U.S. Gov't. Print. Off., 1977, 1978.

The Treasury Department is required by P.L. 94–455 to issue annual reports on high income tax returns. The reports emphasize returns with little or no tax liability. Beginning with tax year 1979, the report was integrated into the regular Statistics of Income volume for individuals.

———. Operation and Effect of the Domestic International Sales Corporation Legislation, 1972– . Washington, U.S. Gov't Print. Off., 1974–81.

This report is required annually under P.L. 92–178.

———. Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, 1976– . Washington, U.S. Gov't. Print. Off., 1979, 1980, 1982.

This report is required to be made annually by P.L. 94–455.

———. Operation and Effect of the Possessions Corporation System of Taxation, 1978– . Washington, U.S. Gov't Print. Off., 1978–85.

This report is required to be made annually by P.L. 94–455.

———. Treasury Bulletin. Washington, U.S. Gov't Print. Off., 1939– .

This quarterly publication reports tax receipts by type of tax on a monthly basis and in the context of Federal receipts as a whole.

———. Treasury Combined Statement of Receipts, Expenditures and Balances of the United States Government, 1940– . Washington, Dept. of the Treasury, various dates.

The annual Combined Statement also report tax receipts by type of tax in the context of budget receipts as a whole, but on a fiscal year basis. Its statistics are generally more detailed than those published in the Annual Report of the Secretary.

———. Report to the Congress on the Capital Gains Tax Reductions of 1978. Washington, U.S. Gov't Print. Off., 1985.

III. Other Executive Branch Publications

U.S. Department of Commerce. Bureau of the Census. Historical Statistics of the United States, Colonial Times to the Present. Bicentennial Edition, part 2. Washington, U.S. Gov't Print. Off., 1975.

This volume contains a section on Government finances that presents a wide variety of historical tax statistics gathered from the IRS and Treasury Department sources listed above, although in a generally less detailed form.

———. Statistical Abstract of the United States. Washington, U.S. Gov't. Print. Off., various dates.

The Statistical Abstract also contains statistics on Federal taxes gathered from sources previously listed. Because it is published annually, statistics it reports are more current than those in the Bureau's Historical Statistics volume. However, less historical detail is provided.

———. Bureau of Economic Analysis. National Income and Product Accounts of the United States, 1929–76: Statistical Tables. Washington, Dept. of Commerce, Sept. 1981.

This volume contains tax statistics on an historical basis in the context of the National Income and Product Accounts.

———. Survey of Current Business. Washington, 1921– .

Published on a monthly basis, this serial also reports tax statistics in the context of the National Income and Product Accounts.

U.S. Federal Trade Commission. Quarterly Financial Report for Manufacturing, Mining and Trade Corporations. Washington, 1947– .

This quarterly report contains statistical information based on samples of financial reports filed with the FTC by corporations. Corporate tax information is reported in aggregate form in the context of balance sheets.

U.S. Office of Management and Budget. Budget of the United States Government. 1921– . Washington, U.S. Gov't. Print. Off., various dates.

The principal budget document, issued on a fiscal year basis, generally contains a section that projects future budget receipts by source. Part 4 of the Supplement to the Fiscal Year 1988 budget. In addition, the budget generally contains a section comprised of summary tables that include historical statistics on tax receipts. These tables are in Part 6c of the Supplement to the Fiscal Year 1988 budget.

———. Budget of the United States Government, 1987: Historical Tables. Washington, U.S. Gov't. Print. Off., 1986.

———. Budget of the United States Government, 1988: Special Analysis B—Federal Transactions in the National Income Accounts. Washington, U.S. Gov't. Print. Off., 1988.

Associated with the principal budget document, but published separately are numerous analyses of topics related to the budget. Special Analysis B contains statistics on tax receipts in the context of the National Income and Product Accounts.

———. Budget of the United States Government, 1988: Special Analysis G—Tax Expenditures. Washington, U.S. Gov't. Print. Off., 1988. Special Analysis G contains statistics related to tax expenditures.

U.S. President. Economic Report of the President, Transmitted to the Congress, 1947- . Washington, U.S. Gov't. Print. Off., various dates.

This annual document contains summary statistics on Federal tax receipts in the context of total Federal receipts on both a calendar and fiscal basis and with some historical detail.

An additional Federal agency from which tax statistics are available is the Securities and Exchange Commission (SEC). Many corporations are required to file financial statements with the SEC that include tax information. These statements, filed on form 10K, are not compiled and published by the SEC but are accessible to the general public at the SEC Public Reference Office, 4050 5th St. N.W., Washington, D.C.

IV. Legislative Branch Sources

The Joint Committee on Taxation frequently publishes revenue estimates prepared by its staff. These are usually associated with revenue measures that are pending before or have recently been passed by Congress or that are otherwise of interest. The estimates generally appear in reports of the House Ways and Means Committee, the Senate Finance Committee, or in Joint Committee prints. Some of the Joint Committee's recent revenue estimates are contained in the publications listed below.

U.S. Congress. Joint Committee on Taxation. Estimates of Federal Tax Expenditures for Fiscal Years 1987-1991. Joint Committee Print, JSC-7-86. Washington, U.S. Gov't. Print. Off., 1986.

———. General Explanation of the Economic Recovery Tax Act of 1981. Joint Committee Print, 97th Cong., 1st sess., Dec. 29, 1981. Washington, U.S. Gov't. Print. Off., 1982.

———. General Explanation of the Revenue Provisions of the Tax Equity and Fiscal Responsibility Act of 1982. Joint Committee Print, 97th Cong., 2nd sess., Dec. 31, 1982. Washington, U.S. Gov't. Print. Off., 1982.
———. General Explanation of the Revenue Provisions of the Deficit Reduction Act of 1984. Joint Committee Print, 98th Cong., 2nd sess., 1984. Washington, U.S. Gov't. Print. Off., 1985.
———. Schedule of Present Federal Excise Taxes (As of January 1, 1986). Joint Committee Print, February 27, 1986; Washington, U.S. Gov't. Print. Off., 1986.
———. Study of 1983 Effective Tax Rates of Selected Large U.S. Corporations. Joint Committee Print, Nov. 28, 1984; Washington, U.S. Gov't. Print. Off., 1984.
———. Summary of Present Federal Excise Taxes. Joint Committee Print, 98th Cong., 1st sess., 1983. Washington, U.S. Gov't. Print. Off., 1983.
U.S. Congress. Senate. Committee on the Budget. Tax Expenditures: Relationships to Spending Programs and Background Material on Individual Provisions. Committee Print, 99th Cong., 2nd sess., June, 1986. Washington, U.S. Gov't. Print. Off., 1986.

In connection with its function of providing Congress with information and analysis of the Federal budget, the Congressional Budget Office (CBO) frequently publishes statistics on and projections of tax receipts along with its budget reports. A listing of recent CBO publications that contain tax data is provided below.

U.S. Congressional Budget Office. An Analysis of the President's Budgetary Proposals for Fiscal Year 1987. Washington, U.S. Gov't. Print. Off., February 1986.
———. The Economic and Budget Outlook: Fiscal Years 1988–1992. Washington, U.S. Gov't. Print. Off., January 1987.
———. Forecasting Individual Income Tax Revenues: A Technical Analysis. Washington, U.S. Gov't. Print. Off., August 1983.
———. Reducing the Deficit—Spending and Revenue Options: A Report to the Senate and House Committees on the Budget—Part II. Washington, U.S. Gov't. Print. Off., February 1987.
———. Revising the Individual Income Tax. Washington, U.S. Gov't. Print. Off., July 1983.
———. Tax Expenditures: Current Issues and Five-Year Budget Projections for Fiscal Years 1984–1988. Washington, U.S. Gov't. Print. Off., October 1983.
———. Revising the Corporate Income Tax. Washington, U.S. Gov't Print. Off., 1985.

PART 4

OTHER MATTERS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Section 1. Public Debt, Debt Management, and Interest Payments
Section 2. The Federal Financing Bank
Section 3. Pension Benefit Guaranty Corporation

Section 1. Public Debt, Debt Management, and Interest Payments

This section describes the relationship between changes in the public debt and the budget as well as the statutory limitations on the conduct of debt management. A variety of data descriptive of the public debt are also provided.

An increase in the gross public debt during a fiscal year is approximately equal to the Federal budget deficit plus trust fund surpluses under present budget conventions, as amended by the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99–177, the Gramm-Rudman-Hollings Act). See the 1985 edition of this volume for a discussion of the relationship between the budget and the public debt under prior budget concepts. Under the 1985 Act, the Federal Financing Bank and several other Federal entities which had been "off budget" under prior budget concepts were moved "on budget." The Act also changed the budgetary status of social security by excluding the operations of the old-age and survivors insurance trust fund (OASI) and the disability trust fund (DI) from the budget. Notwithstanding this provision, the Act provided that the receipts and disbursements of OASI and DI shall be included in calculating the deficit.

The Federal budget deficit is equal to the Federal funds deficit less the surplus in trust funds, both on-budget trust funds and the two off-budget trust funds. Federal funds receipts are derived mainly from taxes and are used for the general purposes of the Government. The trust funds collect certain taxes and other receipts for specified purposes, such as payment of social security benefits, in accordance with the terms of a trust agreement or statute. Thus, even if the budget were in balance, the public debt would still increase if the Federal funds were in a deficit position and the trust funds accumulated an offsetting surplus.

Because trust fund surpluses are invested in public debt securities, the increase in the gross public debt during a fiscal year approximates the deficit plus trust fund surpluses. An increase in the gross public debt is not precisely equal to the Federal deficit plus the trust fund surpluses because, to a limited extent, deficits can be financed by means other than borrowing. For example, if the Federal Government ends the fiscal year with a smaller cash balance than at the beginning of the year, that decline in the cash balance would substitute for borrowing from the public.

It is, of course, possible for the public debt to decline. For example, this would occur if a Federal funds deficit were less than trust fund surpluses and thus there was a budget surplus. Investment of trust fund surpluses in public debt securities would be accomplished by the Treasury not issuing new debt to replace maturing debt held by the public and instead issuing new special issues to the trust funds. In economic terms, the debt held by the public—

that is the amount that excludes the debt held by trust funds—has much more significance than the total debt outstanding.

Table 1 provides actual information on the budget and public debt. This information is taken from the budget documents for fiscal year 1988. As a part of its budget proposals, the Administration recommends placing all the off-budget Federal entities on-budget. This would have the effect of increasing budget outlays and deficits but not affecting the debt subject to limit. Table 1 shows both outlay and deficit figures broken down by their on-budget and off-budget components.

Table 2 shows the statutory debt limit and debt subject to limit at the end of each fiscal year since 1976. The gross public debt is larger than the amount subject to limit primarily because certain debts issued by Federal agencies are not, by statute, subject to the debt ceiling. The amount of such agency debt outstanding has been reduced in recent years. For a more complete discussion of the budget and debt concepts see special analyses C and E in Special Analyses, Budget of the United States Government, Fiscal Year 1988.

Statutory limitations have traditionally been placed on Federal debt. Until World War I, the Congress ordinarily authorized a specific amount for each debt issue. Beginning with the Second Liberty Bond Act of 1917, however, the nature of the limitation was modified in several steps until it developed into a ceiling on the total amount of most Federal debt outstanding. The latter type of limitation has been in effect since 1941.

In 1971, the statutory debt limit was set at a permanent limit of $400 billion. Temporary increments that usually expired in a year or less were periodically enacted. Since the debt subject to limit was more than $400 billion, new legislation was required no later than the expiration date of each temporary increment. Three times in recent years the temporary increment expired without having been extended, so for a few days on each occasion the Federal debt exceeded the statutory limit. The validity of debt issued prior to the expiration of the temporary ceiling was not affected, but the Treasury Department had to suspend all sales of savings bonds and other debt securities until a new temporary ceiling was enacted.

The distinction between the permanent and temporary debt limit was eliminated by Public Law 98–34 (enacted May 26, 1983). The limit was most recently increased to $2,300 billion on October 21, 1986, as part of the Omnibus Budget Reconciliation Act of 1986 (Public Law 99–509). That limit applies through May 15, 1986, at which time the limit reverts to its prior amount, $2,111 billion. The public debt subject to limit on January 30, 1987, was $2,207.6 billion.

Rules enacted in 1979 integrate the House's procedure for setting of the public debt limit with the congressional budget process. Under this procedure (House Rule XLIX), when the conference report on a budget resolution is adopted and specifies a public debt limit for a fiscal year which differs from the statutory limit in effect, the Enrolling Clerk of the House prepares a joint resolution which changes the current statutory public debt limit consistent with the level of public debt specified in the budget resolution. The vote by which the House agreed to the conference report on the

budget resolution is deemed to have been a vote in favor of the joint resolution on the public debt. If there is no conference report, the House vote to adopt the budget resolution applies. The joint resolution is then sent to the Senate for legislative action. After final passage by both Houses, the joint resolution is transmitted to the President for his signature.

This procedure does not preclude changing the public debt limit at any time by passing a public debt limit bill that originates in the Committee on Ways and Means.

Table 3 provides information on the ownership of the public debt. Interest received on the public debt held by Federal Reserve Banks is in excess of the costs of operating those banks. Excess earnings of the Federal Reserve Banks are paid over to the Treasury and classified as miscellaneous budget receipts. During fiscal year 1986, these payments totaled $18.4 billion.

Table 4 shows the composition of interest-bearing public debt by kind of obligation. Current law constrains the composition of the debt by a 4½ percent interest rate ceiling on bonds with a maturity at date of issue of 10 years or more. Under current law, $250 billion of long-term bonds are exempt from the 4½ percent interest rate ceiling.

Prior to the enactment of Public Law 97-248, the Tax Equity and Fiscal Responsibility Act of 1982, the rate of interest on savings bonds was constrained. The rate could not have been increased by more than 1 percentage point in any 6-month period. The 1982 Act repealed that limitation thus allowing the Treasury Department to issue savings bonds with a variable rate of interest. The Treasury Department's new savings bond program went into effect on November 1, 1982.

The maturity distribution of the debt is shown in table 5. This distribution can be summarized in terms of the average maturity of the debt. Debt management primarily involves decisions regarding the maturity composition of the debt. The longer the average maturity of the debt, the smaller the amount of maturing securities that must be refinanced with new issues at any one time. Smaller refunding operations are less likely to disturb capital markets. On the other hand, lengthening the average maturity of the debt requires issuing more longer term securities that are competitive with securities issued to finance private capital formation. Longer term securities typically carry higher interest rates than short-term securities so that lengthening the average maturity of the debt may result in higher interest payments.

Table 6 shows the growth of net interest payments by the Federal Government. In 1986, $190.2 billion of interest on the public debt was paid out. This was offset by interest received by trust funds, primarily the social security and civil service retirement funds, and other interest received. Included in this latter amount is interest earned by the Federal Financing Bank and, as a negative item, interest paid on refunds of tax collections. Net interest payments in 1986 were $136.0 billion, and 13.7 percent of total budget outlays.

TABLE 1.—RECEIPTS, OUTLAYS, AND DEBT, 1978–86

[In billions of dollars]

Description	1978	1980	1982	1984	1986
Receipts:					
On-budget:					
Federal	270.5	350.9	409.3	420.4	473.5
Trust funds	76.9	94.7	122.1	157.5	206.9
Interfund transactions	−33.2	−41.6	−57.1	−77.5	−111.6
Total on-budget	314.2	403.9	474.3	500.4	568.9
Off-budget (trust funds)	85.4	113.2	143.5	166.1	200.2
Total receipts	399.6	517.1	617.8	666.5	769.1
Outlays:					
On-budget:					
Federal funds	342.4	433.5	543.4	638.6	756.5
Trust funds	59.9	84.8	107.9	124.9	161.4
Interfund transactions	−33.2	−41.6	−57.1	−77.5	−111.6
Total on-budget	369.1	476.6	594.3	686.0	806.3
Off-budget (trust funds)	89.7	114.3	151.4	165.8	183.5
Total outlays	458.7	590.9	745.7	851.8	989.8
Surplus or deficit (−):					
Federal funds	−71.9	−82.6	−134.2	−218.2	−283.0
Trust funds	12.7	8.8	6.2	32.9	62.3
Total surplus or deficit (−)	−59.2	−73.8	−127.9	−185.3	−220.7
On-budget	(−59.4)	(−72.7)	(−120.0)	(−185.6)	(−237.5)
Off-budget	(−4.3)	(−1.1)	(−7.9)	(0.3)	(16.7)
Debt outstanding, end of year:					
Gross Federal debt	780.4	914.3	1,147.0	1,576.7	2,112.0
Held by the public	610.9	715.1	929.4	1,312.6	1,714.0

Note.—For all years, transactions of the social security trust funds are presented off-budget and transactions of formerly off-budget accounts are presented on-budget.

Source: The United States Budget in Brief, Fiscal Year 1988, Executive Office of the President, Office of Management and Budget, p. 97.

TABLE 2.—STATUTORY DEBT LIMIT AND DEBT SUBJECT TO LIMIT, 1976–86

[In billions of dollars]

End of fiscal year	Statutory debt limit	Debt subject to limit
1976	636.0	620.6
1977	700.0	700.0
1978	798.0	772.7
1979	830.0	827.6
1980	925.0	908.7
1981	999.8	999.8
1982	1,143.1	1,142.9
1983	1,389.0	1,378.0
1984	1,573.0	1,573.0
1985	1,823.8	1,823.8
1986	2,111.0	2,111.0

Source: Treasury Bulletin, 4th Quarter, Fiscal 1986, p. 19, and earlier issues.

TABLE 3.—ESTIMATED OWNERSHIP OF PUBLIC DEBT SECURITIES, 1976–86

[Par. values; [1] billions of dollars]

End of calendar year	Total public debt securities	Held by Government accounts	Held by Federal Reserve Banks	Held by private investors											
				Total	Commercial banks [2]	Nonbank investors									
						Total	Individuals [3]			Insurance companies	Money market funds	Corporations [5]	State and local governments [6]	Foreign and international [7]	Other investors [8]
							Total	Savings bonds [4]	Other securities						
1976	653.5	147.1	97.0	409.5	103.5	306.0	101.6	72.0	29.6	16.2	1.1	23.5	40.9	78.1	44.6
1977	718.9	154.8	102.8	461.3	98.9	362.4	107.8	76.7	31.1	19.9	.9	18.2	58.1	109.6	47.9
1978	789.2	170.0	110.6	508.6	95.0	413.6	114.0	80.7	33.3	20.0	1.5	17.3	76.1	133.1	51.6
1979	845.1	187.1	117.5	540.5	88.1	452.4	118.0	79.9	38.1	21.4	5.6	17.0	81.7	119.0	89.7
1980	930.2	192.5	121.3	616.4	112.1	504.3	117.1	72.5	44.6	24.0	3.5	19.3	87.9	129.7	122.8
1981	1,028.7	203.3	131.0	694.5	111.4	583.1	110.8	68.1	42.7	29.0	21.5	17.9	96.8	136.6	170.5
1982	1,197.1	209.4	139.3	848.4	131.4	717.0	116.5	68.3	48.2	39.1	42.6	24.5	116.6	149.5	228.2
1983	1,410.7	236.3	151.9	1,022.6	188.8	883.7	133.4	71.5	61.9	56.7	22.8	39.7	150.5	166.3	264.4
1984	1,663.0	289.6	160.9	1,212.5	183.4	1,029.1	143.8	74.5	69.3	82.3	25.9	50.1	[10] 179.4	192.9	[10] 360.6
1985	1,945.9	348.9	181.3	1,417.2	192.2	1,225.0	154.8	79.8	75.0	93.2	25.1	59.0	NA	214.6	NA
1986 [9]	2,125.3	382.9	190.8	1,553.3	212.5	1,340.8	[10] 156.1	87.1	[10] 69.0	NA	24.9	[10] 67.0	NA	[10] 256.3	NA

NA—Not available.

[1] U.S. savings bonds, series A–F and J, are included at current redemption value.

[2] Includes domestically chartered banks, U.S. branches and agencies of foreign banks; New York investment companies majority owned by foreign banks, and Edge Act corporations owned by domestically chartered and foreign banks. [3] Includes partnerships and personal trust accounts.

[4] Includes U.S. savings notes. Sales began May 1, 1967, and were discontinued June 30, 1970. [5] Exclusive of banks and insurance companies.

[6] Includes State and local pension funds. [7] Consists of the investment of foreign balances and international accounts in the United States.

[8] Includes savings and loan associations, credit unions, nonprofit institutions, mutual savings banks, corporate pension trust funds, dealers and brokers, certain Government deposit accounts, and Government-sponsored agencies. [9] September estimate. [10] Preliminary data.

Source: Treasury Bulletin 4th Quarter, Fiscal 1986, p. 35.

TABLE 4.—INTEREST-BEARING PUBLIC DEBT SECURITIES BY KIND OF OBLIGATION, 1976–86

[In billions of dollars]

End of fiscal year	Total interest-bearing public debt securities	Marketable				Nonmarketable				
		Total	Treasury bills	Treasury notes	Treasury bonds [1]	Total	U.S. savings bonds	Foreign government and public series [2]	Government account series	Other [3]
1976	619.3	392.6	161.2	191.8	39.6	226.7	69.7	22.0	130.6	4.9
1977	697.6	443.5	156.1	241.7	45.7	254.1	75.4	21.8	140.1	16.8
1978	767.0	485.2	161.0	267.9	56.4	281.8	79.8	21.7	153.3	27.1
1979	819.0	506.7	161.4	274.2	71.1	312.3	80.4	28.1	176.4	27.4
1980	906.4	594.5	199.8	310.9	83.8	311.9	72.7	25.2	189.8	24.2
1981	996.5	683.2	223.4	363.6	96.2	313.3	68.0	20.5	201.1	23.7
1982	1,140.9	824.4	277.9	442.9	103.6	316.5	67.3	14.7	210.5	24.1
1983	1,375.8	1,024.0	340.7	557.5	125.7	351.8	70.0	11.4	234.7	35.5
1984	1,559.6	1,176.6	356.8	661.7	158.1	383.0	72.8	8.8	259.5	41.8
1985	1,821.0	1,360.2	384.2	776.4	199.5	460.8	77.0	6.6	313.9	63.2
1986	2,122.7	1,564.3	410.7	896.9	241.7	558.4	85.6	4.1	365.9	102.8

[1] Includes Treasury bonds and minor amounts of Panama Canal and postal savings bonds.

[2] Nonmarketable certificates of indebtedness, notes, bonds, and bills in the Treasury foreign series of dollar-denominated and foreign-currency denominated issues.

[3] Includes depository bonds, retirement plan bonds, Rural Electrification Administration bonds, State and local bonds, and special issues held only by U.S. Government agencies and trust funds and the Federal home loan banks.

Note.—Through fiscal year 1976, the fiscal year was on a July 1–June 30 basis; beginning October 1976 (fiscal year 1977) the fiscal year is on an October 1–September 30 basis.

Source: Treasury Bulletin, 4th Quarter, Fiscal 1986, p. 16, and prior issues.

TABLE 5.—MATURITY DISTRIBUTION AND AVERAGE LENGTH OF MARKETABLE INTEREST-BEARING PUBLIC DEBT SECURITIES HELD BY PRIVATE INVESTORS, 1976–86

[Dollars in billions]

End of fiscal year	Amount outstanding, privately held	Maturity class					Average length	
		Within 1 year	1 to 5 years	5 to 10 years	10 to 20 years	20 years and over	Years	Months
1976	279.8	151.7	89.2	24.2	8.1	6.7	2	7
1977	326.7	161.3	113.3	33.1	8.4	10.5	2	11
1978	356.1	163.9	133.0	33.5	11.4	14.8	3	3
1979	380.5	181.9	127.6	32.3	18.5	20.3	3	7
1980	463.7	220.1	156.2	38.8	25.9	22.7	3	9
1981	549.9	256.2	182.2	48.7	32.6	30.1	4	0
1982	682.0	314.4	221.8	75.7	33.0	37.1	3	11
1983	862.6	379.6	295.0	99.2	40.8	48.1	4	1
1984	1,017.5	437.9	332.8	130.4	49.7	66.7	4	6
1985	1,185.7	472.8	402.8	159.4	62.9	88.0	4	11
1986	1,354.3	506.9	467.3	190.0	70.7	119.4	5	3

Note.—All issues classified to final maturity. Through fiscal year 1976, the fiscal year was on a July 1–June 30 basis; beginning October 1976 (fiscal year 1977), the fiscal year is on an October 1–September 30 basis.

Source: Treasury Bulletin, 4th Quarter, Fiscal 1986, p. 19, and prior issues.

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TABLE 6.—INTEREST PAYMENTS, 1978–1986

[In billions of dollars]

	1978	1980	1982	1984	1986
Interest on the public debt	48.7	74.8	117.2	153.8	190.2
Interest received by on-budget trust funds	−6.1	−9.7	−14.0	−17.0	−26.6
Interest received by off-budget trust funds	−2.4	−2.3	−2.1	−3.3	−4.3
Other interest	−4.7	−10.2	−16.1	−22.4	−23.3
Total net interest	35.4	52.5	85.0	111.1	136.0
On-budget	(37.8)	(54.9)	(87.1)	(114.4)	(140.3)
Off-budget	(−2.4)	(−2.3)	(−2.1)	(−3.3)	(−4.3)

Source: Executive Office of the President, Office of Management and Budget, The United States Budget in Brief, Fiscal Year 1988, p. 107.

Section 2. The Federal Financing Bank

Legislative History

The Federal Financing Bank (FFB) was established by Public Law 93-224 after favorable consideration by the House Committee on Ways and Means and the Senate Committee on Banking, Housing and Urban Affairs. The House and Senate agreed to the conference report on December 19, 1973. (House Reports 93-299, Committee on Ways and Means and 93-700, Conference Committee, and Senate Report 93-166, Committee on Banking). The Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) modified the Federal budgetary treatment of FFB's operations.

Operations of the FFB

The FFB was created as an off-budget Federal agency in the Treasury Department as a means of coordinating Federal borrowing efforts, reducing the costs of Federal borrowing from the public, and minimizing the disruption of Federal borrowing in the private markets. At the time the FFB was established, Federal credit programs had expanded to the point that some Federal financing was going to the market every few days. Accordingly, the FFB was authorized to purchase the obligations of any Federal agency and obligations guaranteed by Federal agencies. The FFB began operations in May 1974. Although the FFB was authorized to borrow in its own name in the private markets, it has done so only once. Since then, the FFB has borrowed directly from the Treasury Department, and it in turn has borrowed that amount in addition to the borrowing needed to finance the budget deficit. Hence, the Federal debt is increased as the Treasury Department borrows to accommodate the FFB.

The FFB's outstanding holdings have grown dramatically, from $35 billion in fiscal year 1977 to $107.8 billion in fiscal year 1981, and $156.9 billion in 1986. Much of the growth since 1977 has occurred in the purchase of federally guaranteed loans.

Because of the budgetary treatment of federally guaranteed loans before fiscal year 1987, FFB purchases of such guaranteed loans had the effect of converting agency guaranteed loans into a direct off-budget loan of the Federal Government. Also, when the FFB purchased the loan assets of other Federal agencies, the effect was to transfer the direct agency loan into an off-budget loan of the FFB. But under the Balanced Budget and Emergency Deficit Control Act of 1985, loan assets and loan guarantees purchased by the FFB are no longer off-budget. Instead, FFB purchases of this nature are recorded as outlays of the agency that originated the loan or loan guarantee.

There is no statutory limit on the magnitude of the FFB's operations. Accordingly, the only controls are indirect and result from whatever limits may be imposed in the authorizations or appropriations processes on the credit activities of other Federal agencies. Since 1980, the Administration and Congress have been working to develop a more comprehensive system for controlling Federal credit activities in the budget process. The Administration proposes appropriations limits on new direct loan obligations and loan guarantee commitments as part of the budget process. These requests are then acted upon by Congress through regular appropriations bills. Presently, however, limits have been proposed for more than half the Federal credit budget.

Outlays and Acquisitions

Table 1 illustrates that FFB annual outlays have grown from $14.4 billion in fiscal year 1980 to $21 billion in fiscal year 1981, declining to $3.4 billion in fiscal year 1986. Over the same period, the FFB's outstanding portfolio has grown from $83 billion to $157 billion. Annual acquisitions have ranged over the period from $18 billion to over $30 billion.

TABLE 1.—FEDERAL FINANCING BANK ACTIVITIES

[In millions of dollars]

	Fiscal year—						
	1980	1981	1982	1983	1984	1985	1986
New acquisitions	22,188	30,269	26,232	18,295	19,448	18,335	11,588
Net outlays	14,365	20,956	14,155	10,396	7,336	7,433	3,357
Outstandings [1]	83,072	107,799	124,301	135,923	144,709	153,513	156,871

[1] Includes balance of direct loans and purchases of Federal agency debt.

Source: Special Analysis F, Table F–4, Budget of the United States, Fiscal Years 1981–82; Table F–5, Budget of the United States, Fiscal Year 1983; Table F–8, Budget of the United States, Fiscal Year 1984; Table F–17, Budget of the United States, Fiscal Year 1985; Table F–22, Budget of the United States, Fiscal Year 1986; Internal FFB data; Table F–21, Budget of the United States, Fiscal Year 1988.

Section 3. Pension Benefit Guaranty Corporation

Legislative History

The Pension Benefit Guaranty Corporation (PBGC) was established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) (88 Stat. 829, Public Law 93–406) to protect the retirement income of plan participants and their beneficiaries covered under private sector, defined benefit pension plans. Public Law 96–364 requires that the Corporation's receipts and disbursements are to be on-budget and included in the Government's budget totals.

Explanation of the Corporation and its Functions

Administration

The Pension Benefit Guaranty Corporation is a wholly owned Government corporation, administered by a board of directors, the chairman being the Secretary of Labor; other directors being the Secretary of Commerce and the Secretary of the Treasury. ERISA provides for a 7-member Advisory Committee, appointed by the President, for staggered 3-year terms. The Advisory Committee is to advise the PBGC as to its policies and procedures relating to the appointment of trustees in termination proceedings, investment of moneys, plan liquidations, and other matters as requested by the PBGC.

Plan Termination Insurance Generally

Individuals protected by the pension plan termination insurance program (Title IV of ERISA) are participants and beneficiaries of defined benefit pension plans that either affect interstate commerce or are qualified under the Internal Revenue Code. Only vested benefits are insured. Pension plans specifically excluded from the plan termination insurance program are government and church plans, individual account plans (i.e., defined contribution plans such as profit-sharing, money purchase, thrift and savings, and stock bonus plans), and plans of fraternal societies financed entirely by member contributions.

A. Single-Employer Plans

Terminated single-employer plans with assets insufficient to pay guaranteed benefits are taken over by the PBGC and a trust fund is established for plans taken into trusteeship. The PBGC assumes control of the plan assets and takes responsibility for the expected plan liability. The trust pays the share of benefit payments actually funded by plan assets and employer liability. The balance of guaranteed benefits is paid by the revolving funds.

Pension benefits for vested employees under defined benefit plans are guaranteed by the PBGC. The limitation on insured benefits under single-employer plans is the lesser of 100 percent of the employee's wages or $1,857.95 a month. The dollar amount is adjusted annually to reflect changes in the Social Security contribution and benefit base.

B. Multi-Employer Plans

For multiemployer pension plans, the PBGC insures plan insolvency rather than plan termination. Financially troubled multiemployer plans may reorganize and adjust benefits under regulations of the PBGC which may extend loans to enable the plans to continue paying benefits.

Different benefit guarantee levels exist for participants in multiemployer pension plans. As a result of the Multiemployer Pension Plan Amendments Act of 1980 (Public Law 96–364), only the first $5 of the monthly benefit accrual rate is 100 percent guaranteed for each year of a participant's service, and 75 percent of the next $15 of the basic monthly benefits is guaranteed. (The 75 percent guaranty is reduced to 65 percent for plans that do not meet specified funding requirements.)

Financing

The PBGC is required by ERISA to be self-supporting. Sources of financing are insurance premiums from on-going defined benefit pension plans, assets from terminated plans, investment income and employer liability. Any change in the PBGC's insurance premium rate for single employer pension plans must be approved by a joint resolution of Congress. The PBGC may increase the premium rate for multiemployer plans up to certain limits imposed by law. The financial structure of PBGC's programs includes both revolving and trust funds, borrowing authority, and other sources of income.

A. Revolving Funds

Four revolving funds are employed to insure basic and non-basic pension plan benefits. One fund is used in connection with the basic benefits and contingent liability insurance programs related to single employer plans. A second fund is used in connection with the basic benefits and contingent liability insurance programs related to multiemployer plans. A third fund is associated with non-basic benefits insurance programs related to single employer plans. A similar fund, the fourth revolving fund, is used in connection with non-basic benefits insurance programs for multiemployer plans.

B. Trust Funds

(1) *Plan Assets.* The assets of plans for which PBGC has become trustee are the primary source of funding for the trust fund.

(2) *Employer Liability.* An employer may only terminate a single-employer defined benefit pension plan under which benefits are guaranteed by the PBGC in a standard termination or in a distress termination. An employer is permitted to terminate a plan in a standard termination only if the plan holds sufficient assets to pay

all "benefit commitments" under the plan. Benefit commitments generally include all guaranteed benefits and all benefits which would be guaranteed but for the insurance limit on the amount of the benefit, or the length of time benefits have been in effect. Under a standard termination the employer has no further liability to the PBGC or plan participants.

A distress termination can occur only in certain cases of financial distress of the employer, such as bankruptcy or the inability to pay debts when due unless the plan is terminated.

Upon the termination of a plan pursuant to distress termination, if the PBGC determines that plan assets are insufficient to fund guaranteed benefits, the PBGC is required to institute trusteeship proceedings for the plan. Each contributing sponsor of the plan and each member of the controlled group of each contributing sponsor is jointly and severally liable to the PBGC for the sum of (1) the total amount of all unfunded guaranteed benefits, up to 30 percent of the collective net worth of those persons liable to the PBGC; (2) an amount equal to the excess (if any) of (a) 75 percent of the total amount of all unfunded guaranteed benefits over (b) the amount described in (1); and (3) interest on the amount due calculated from the termination date. The total amount of unfunded guaranteed benefits is computed by treating any accumulated funding deficiency and the balance of any waived funding deficiency as a receivable of the plan and, thus, as a plan asset. In a distress termination the employer remains liable (within certain limits) to plan participants for the difference between benefit commitments and guaranteed benefits.

(3) *Investment Income.* Assets of plans and employer liability collections are invested in a diversified portfolio of private and public sector securities to realize the highest possible rate of return consistent with an appropriate level of risk for the type of program administered.

C. Sources of Income

(1) *Insurance Premiums.* The principal source of revenue for the plan termination insurance program is premiums required to be paid by ongoing covered plans. The PBGC is required to prescribe insurance premium rates and coverage schedules to provide sufficient revenues to carry out its title IV functions, including the payment of guaranteed benefits and administrative expenses. Premiums for each participant in a single employer plan are set at $8.50. Multiemployer plans are assessed a per capita premium rate beginning with $1.00 increasing to $1.40 for the first four plan years beginning after September 26, 1980; $1.80 for the fifth and sixth plan years; $2.20 for the seventh and eighth plan years; and $2.60 for the ninth and succeeding plan years.

D. Borrowing Authority

In addition to the premium and investment incomes which are generated for the revolving funds, the PBGC is authorized to borrow up to $100 million from the United States Treasury to carry out its responsibilities.

Termination insurance programs cover 38 million participants and beneficiaries in defined benefit pension plans.

Recent Experience and Legislation Affecting Single-Employer Plans

Since assets of plans for which PBGC has become trustee are the primary source of funding for the single-employer trust funds, the financial condition of the trust funds is negatively affected by the termination of plans with insufficient assets. In the past few years several severely underfunded plans have been terminated, causing the trust funds to show a larger financial deficit.

The PBGC deficit is calculated on a "termination basis", and therefore does not include any assumptions about future asset or liability increases. Simply stated the deficit represents the difference between the value of all current assets and the cost of purchasing annuities sufficient to pay all accrued obligations.

The 99th Congress addressed PBGC's deficit in Title XI of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). Title XI increased the annual per plan participant premium paid by employers from $2.60 to $8.50. Title XI also contained a series of reforms referred to collectively as the Single Employer Pension Plan Amendment Act (SEPPAA). In general the SEPPAA reforms sought to prevent the deliberate dumping of insufficiently funded plans on the PBGC by distinguishing between and imposing separate requirements on "standard" and "distress" terminations. An employer is permitted to terminate a plan in a standard termination only if the plan holds sufficient assets to pay all benefit commitments under the plan. An employer is permitted to terminate a plan without sufficient assets to fund benefit commitments only in the case of a distress termination. Title XI provides that the PBGC is to permit a distress termination only if the employer meets certain criteria of financial distress. In distress terminations the employer's financial liability to the PBGC is increased. In addition, the PBGC's general enforcement authority and involvement with plan operations is increased.

Even after the passage of COBRA the PBGC single-employer trust funds had a deficit of $1.7 billion. By January, 1987 several additional insufficiently funded plans had been terminated so that the deficit exceeded $4.0 billion. Should additional plans with insufficient funds terminate the deficit will further increase.

Reports and Studies

Two studies concerning plan operations were required under COBRA.

(1) The PBGC is required to study the premium structure (including the feasibility of a risk-related premium) and make recommendations for change, if necessary. An advisory group appointed by the Chairman of the House Committees on Education and Labor and Ways and Means and the Senate Committees on Labor and Human Resources and Finance is required to analyze and critique the study. The study is to be filed with the Congress no later than one year from the date of enactment and the advisory group's report is due no later than 6 months after the PBGC submits its report to the Advisory Council.

(2) The Department of Labor is required to conduct a study of terminations of overfunded pension plans. DOL is required to

submit a report on the study, together with any recommendations for statutory changes, to the House Committee on Education and Labor, the Senate Finance Committee, and the Senate Committee on Labor and Human Resources by February 1, 1987.

The following tables show the status of the PBGC's insurance programs and its financial condition. In budgetary terms, PBGC outlays are basically benefit obligations minus income to the funds. As long as this income exceeds the amount of benefit obligations, outlays are presented as a negative figure.

TABLE 1.—CURRENT FINANCING AND OUTLAYS OF THE PBGC

[In millions]

	1986 actual	1987 estimate	1988 estimate
Obligations:			
Benefit payments	238.8	516.7	741.9
Other	33.3	39.9	43.5
Total	272.1	556.6	785.4
Financing:			
Premium income	216.1	290.1	301.6
Benefit payment reimbursement	79.1	198.8	287.8
Other (primarily interest)	48.7	37.8	24.0
Total	343.9	526.7	613.4
Outlays as shown in Federal budget	−105.9	−4.5	171.8

Source: Fiscal year 1988 Budget of the United States, appendix.

TABLE 2.—FINANCIAL CONDITION OF FUNDS

[In millions]

	1985 actual	1986 actual	1987 estimate	1988 estimate
Assets	346.4	501.8	480.0	658.9
Liabilities	1,644.9	2,820.7	4,688.2	4,875.9
Government equity	−1,298.5	−2,318.9	−4,208.1	−4,216.9

Source: Fiscal year 1988 Budget of the United States, appendix.

The following table provides information on terminated plans and trusteeships.

TABLE 3.—PLAN TERMINATIONS AND TRUSTEESHIPS

	1986 actual	1987 estimate	1988 estimate
Plans terminated during year:			
With sufficient assets	2	0	0
With insufficient assets	100	100	100
Government trusteeships at end of year	1,241	1,341	1,441
Payees in Government trusteeships receiving monthly benefits from the Corporation	94,000	153,000	176,600
Checks issued	620,063	1,063,900	1,555,900

Source: Fiscal year 1988 Budget of the United States, appendix.

PART 5

BUDGET TABLES, DESCRIPTION OF FISCAL YEAR 1988 ADMINISTRATION BUDGET PROPOSALS, AND DESCRIPTION OF THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985

Section 1. Budget Tables

TABLE 1.—TOTAL FEDERAL EXPENDITURES FOR SPENDING PROGRAMS UNDER WAYS AND MEANS JURISDICTION FOR FISCAL YEARS 1970, 1975, 1980, 1985, AND 1986

[In billions of dollars]

	Fiscal year—				
	1970	1975	1980	1985	1986
Social Security (OASDI)	30.3	64.7	118.5	191.0	[1] 199.8
Social Security (OASI)	(27.3)	(56.7)	(103.2)	(171.6)	[1] (179.6)
Social Security (DI)	(3.0)	(8.0)	(15.3)	(19.4)	[1] (20.2)
Medicare	7.2	14.8	35.0	71.4	75.9
Medicare—Part A	(5.0)	(10.6)	(24.3)	(48.7)	(49.7)
Medicare—Part B	(2.2)	(4.2)	(10.7)	(22.7)	(26.2)
Trade adjustment assistance	([2])	([2])	1.6	([2])	.1
Unemployment insurance, regular benefits	3.3	11.2	14.2	15.9	18.5
Unemployment insurance, extended benefits and Federal supplemental compensation	([2])	2.1	.6	1.3	.1
Aid to families with dependent children (AFDC)	2.5	5.1	6.6	8.6	9.3
Child support enforcement (CSE)	([2])	([2])	.4	.6	.7
Supplemental security income (SSI)	[3] 2.0	4.7	6.4	9.6	10.3
Title XX social services program	.5	2.0	2.7	2.7	2.7
Title IV–B child welfare program and foster care	.1	.4	.4	.7	.8
Earned income tax credit [4]	([2])	1.3	1.3	1.1	1.4
Total [5]	45.9	106.3	187.6	308.5	319.6
Net interest	14.4	23.2	52.5	129.4	136.0
Total [5] (including interest)	60.3	129.5	240.1	437.9	455.6

[1] Beginning in fiscal year 1986, the outlays and revenues of the OASDI trust funds are not included in the unified Federal budget.

[2] No program or outlays less than $50,000,000.

[3] Adult cash welfare programs that preceded SSI.

[4] These amounts reflect only the outlay portion of the credit.

[5] Totals may not add due to rounding.

Note.—Included in "Unemployment insurance, regular benefits" are regular benefits, unemployment compensation for ex-service members and Federal employees and Federal and State administrative costs. "Unemployment insurance, extended benefits" includes special unemployment assistance and Federal supplemental benefits. Medicare Part B expenditures have not been adjusted by subtracting premiums paid by Part B enrollees.

Source: Congressional Budget Office.

TABLE 2.—AVERAGE NUMBER OF RECIPIENTS IN PROGRAMS UNDER WAYS AND MEANS JURISDICTION FOR FISCAL YEARS 1970, 1975, 1980, 1985, AND 1986

[Numbers in thousands]

Programs	Fiscal year—				
	1970	1975	1980	1985	1986
Social Security (OASDI) [1]	25,315	30,852	35,236	36,668	37,273
Social Security (OASI) [1]	22,827	26,941	30,466	32,826	33,325
Social Security (DI) [1]	2,488	3,911	4,770	3,862	3,948
Medicare—Part A [2]	20,000	23,700	27,531	30,109	30,772
Medicare—Part B [2]	19,200	23,300	27,113	29,781	30,411
Trade adjustment assistance [3]	([4])	([4])	532	20	42
Unemployment insurance, regular benefits [5]	1,805	3,986	3,350	2,692	2,713
Aid to families with dependent children (AFDC) (includes foster care) [6]	7,429	11,066	10,597	10,921	11,103
Earned income tax credit [7]	([4])	6,215	6,954	NA	NA
Supplemental security income (SSI)	[8] 2,958	[9] 3,893	[9] 3,682	[9] 3,799	3,922

[1] Number enrolled at mid-point of fiscal year.
[2] Persons with protection.
[3] Total number of recipients throughout the year.
[4] No program or outlays less than $50,000,000.
[5] Average weekly number, calendar year.
[6] Average monthly number.
[7] Calendar year—number of families receiving EITC.
[8] Number at mid-point of fiscal year in adult cash welfare programs that preceded SSI.
[9] From table 11, SSI section.
NA—Not available.

Note.—Figures represent an estimate of the number of recipients at a given point during the year—not all recipients during the entire year.

Source: Compiled by committee staff.

TABLE 3.—AVERAGE EXPENDITURE IN CONSTANT 1985 DOLLARS PER RECIPIENT (ENROLLEE) FOR MAJOR PROGRAMS UNDER WAYS AND MEANS JURISDICTION FOR FISCAL YEARS 1970, 1975, 1980, 1985, AND 1986

[In dollars]

Programs	Fiscal year—				
	1970	1975	1980	1985	1986
Social Security (OASI) (annual)	3,375	4,315	4,486	5,228	5,288
Social Security (DI) (annual)	3,401	4,183	4,249	5,023	5,020
Medicare total	1,021	1,286	1,678	2,379	2,430
Part A (annual)	699	919	1,152	1,617	1,585
Part B (annual)	322	367	515	762	845
Unemployment insurance, regular benefits (weekly)	130	135	127	122	127
Aid to families with dependent children (AFDC) (annual family benefit)	6,023	5,168	4,355	4,068	4,164
Earned income tax credit	(1)	412	379	NA	NA
Supplemental security income (SSI)[2] (annual)	1,895	2,475	2,302	2,527	2,577

[1] No program or outlays less than $50,000,000.
[2] Adult cash welfare programs that preceded SSI.
NA—Not available.

Note.—The average expenditure (benefit) in table 3 was converted into constant 1985 dollars using the CPI–U consumer price index.

Source: Compiled by committee staff.

TABLE 4.—CBO BASELINE REVENUE PROJECTIONS BY SOURCE

[By fiscal year, in billions of dollars]

Major source	1986 actual	1987 base	Projections				
			1988	1989	1990	1991	1992
Individual income	349	361	381	412	458	502	546
Corporate income	63	101	119	126	138	151	162
Social insurance	284	301	329	353	383	411	436
Excise	33	33	32	31	32	33	33
Estate and gift	7	6	6	5	4	4	3
Customs duties	13	14	15	17	18	19	21
Miscellaneous	20	18	18	17	17	18	18
Total revenues	769	834	900	962	1,050	1,138	1,220

Source: Congressional Budget Office, "The Economic and Budget Outlook: Fiscal Years 1988–1992."

TABLE 5.—FEDERAL REVENUES BY SOURCE AS A PERCENTAGE OF TOTAL REVENUES AND AS A PERCENTAGE OF GNP FOR FISCAL YEARS 1965, 1970, 1975, 1980, 1985, 1988, AND 1992

Revenue source by type of tax	Fiscal year—						
	1965	1970	1975	1980	1985	1988	1992
Percent of revenues:							
Individual income	41.8	46.9	43.9	47.2	45.6	42.3	44.8
Corporate income	21.8	17.0	14.5	12.5	8.4	13.2	13.3
Social insurance	19.0	23.0	30.3	30.5	36.1	36.6	35.7
Excise	12.5	8.1	5.9	4.7	4.9	3.6	2.7
Estate and gift	2.3	1.9	1.6	1.2	.9	.7	.2
Other	2.6	3.0	3.7	3.8	4.2	3.7	3.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.1
Percent of GNP:							
Individual income	7.2	9.1	8.0	9.1	8.5	8.1	8.8
Corporate income	3.8	3.3	2.7	2.4	1.6	2.5	2.6
Social insurance	3.3	4.5	5.5	5.9	6.7	7.0	7.1
Excise	2.2	1.6	1.1	.9	.9	.7	.5
Estate and gift	.4	.4	.3	.2	.2	.1	.1
Other	.4	.5	.6	.8	.8	.7	.6
Total	17.3	19.5	18.3	19.4	18.6	19.2	19.7

Note.—Columns may not add due to rounding.

Source: Congressional Budget Office, "The Economic and Budget Outlook: Fiscal Years 1988–1992."

TABLE 6.—CBO BASELINE PROJECTIONS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS FOR FISCAL YEARS 1986–92

[In billions of dollars]

	1986 actual	1987	1988	1989	1990	1991	1992
Social Security (OASDI)	199.8	208.6	221.6	236.3	253.1	270.7	289.0
OASI	179.6	187.4	199.2	212.7	228.1	244.2	261.0
DI	20.2	21.2	22.4	23.7	25.1	26.5	28.0
Medicare	75.9	79.8	91.7	101.4	113.6	126.7	141.2
Hospital insurance	49.7	50.1	57.5	62.8	70.0	77.3	85.4
Supplementary medical insurance	26.2	29.7	34.2	38.6	43.6	49.4	55.8
Trade adjustment assistance	.1	.2	.1	.1	.1	.1	.1
Unemployment assistance	18.6	17.9	18.2	18.8	19.0	19.7	20.7
AFDC	9.3	9.8	10.2	10.5	11.0	11.5	12.2
Child support	.7	.8	.8	.8	.9	.9	1.0
Earned income tax credit	1.4	1.5	3.1	4.4	4.5	4.7	4.8
SSI	10.3	10.8	12.2	12.1	11.8	13.5	14.3
Social services (title XX)	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Child welfare, foster care, adoption assistance	.8	1.0	1.0	1.0	1.1	1.1	1.2
SMI premiums	5.7	6.6	8.0	8.8	9.4	10.0	10.6
Total	325.3	339.7	369.6	396.9	427.2	461.6	497.8

Note.—SSI estimates include 13 months of payments in fiscal year 1988 and 11 months in 1990.

Source: Congressional Budget Office.

TABLE 7.—WAYS AND MEANS PROGRAM OUTLAYS COMPARED WITH TOTAL FEDERAL GOVERNMENT OUTLAYS FOR SELECTED YEARS

[In billions of dollars]

	1970	1975	1980	1985	1988 [1]	1992 [1]
Social Security (including medicare)	37.5	79.5	153.5	262.4	313.3	430.2
Unemployment compensation and trade adjustment assistance	3.3	13.3	16.1	17.7	18.3	20.8
Public assistance and social services (AFDC, SSI, title XX, EITC, and child welfare programs)	5.1	13.5	17.8	23.3	30.0	36.2
Other entitlement programs	21.9	51.5	92.0	136.8	150.4	172.8
Nondefense discretionary spending	43.6	75.6	141.2	172.1	185.0	220.0
National defense	81.7	86.5	134.0	252.7	290.0	346.0
Net interest	14.4	23.2	52.5	129.4	141.0	154.0
Offsetting receipts	−11.7	−18.4	−30.4	−48.1	−59.0	−75.0
Total	195.7	324.2	576.7	946.3	1,069	1,305

[1] Based upon CBO baseline current law projections.

Source: Congressional Budget Office, "The Economic and Budget Outlook: Fiscal Years 1988–1992."

TABLE 8.—WAYS AND MEANS PROGRAM OUTLAYS COMPARED WITH TOTAL FEDERAL PROGRAM OUTLAYS IN PERCENTAGE TERMS FOR SELECTED YEARS

	1970	1975	1980	1985	1988 [1]	1992 [1]
Social Security (including medicare)	19.2	24.5	26.6	27.7	29.3	33.0
Unemployment compensation and trade adjustment assistance	1.7	4.1	2.8	1.9	1.7	1.6
Public assistance and social services (AFDC, SSI, title XX, EITC, low income energy assistance and child welfare programs)	2.6	4.2	3.1	2.5	2.8	2.8
Other entitlement programs	11.1	15.8	15.9	14.5	14.1	13.2
Nondefense discretionary spending	22.3	23.3	24.5	18.2	17.3	16.9
National defense	41.7	26.7	23.2	26.7	27.1	26.5
Net interest	7.4	7.2	9.1	13.7	13.2	11.8
Offsetting receipts	−6.0	−5.7	−5.3	−5.1	−5.5	−5.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
Ways and Means programs as percent of total Federal Government outlays, less interest	25.3	35.3	35.7	37.8	39.0	42.3

[1] Based on CBO baseline current law projections.

TABLE 9.—OUTLAYS FOR MAJOR SPENDING CATEGORIES FOR SELECTED YEARS AS A PERCENT OF BUDGET AND GNP

[By fiscal year]

	1965	1970	1975	1980	1985	1988 [1]	1992 [1]
	As a percent of budget						
National defense	42.8	41.8	26.0	22.7	26.7	27.1	26.5
Entitlements and other mandatories [2]	29.9	34.3	47.3	47.5	46.5	47.9	50.6
Nondefense discretionary spending	26.9	22.6	25.2	26.1	18.2	17.3	16.9
Net interest	7.3	7.4	7.0	8.9	13.7	13.2	11.8
Offsetting receipts	−6.8	−5.9	−5.6	−5.1	−5.1	−5.5	−5.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	As a percent of GNP						
National defense	7.5	8.2	5.7	5.0	6.4	6.2	5.6
Entitlements and other mandatories	5.2	6.8	10.3	10.5	11.2	10.9	10.7
Nondefense discretionary spending	4.7	4.5	5.5	5.8	4.4	3.9	3.6
Net interest	1.3	1.5	1.5	2.0	3.3	3.0	2.5
Offseting receipts	−1.2	−1.2	−1.2	−1.1	−1.2	−1.3	−1.2
Total	17.6	19.8	21.8	22.2	24.0	22.8	21.1

[1] CBO baseline projections.
[2] Includes social security, which is off-budget in fiscal year 1986 and thereafter.

Source: CBO, "The Economic and Budget Outlook: Fiscal Years 1988–1992."

TABLE 10.—CBO BASELINE OUTLAY PROJECTIONS FOR ENTITLEMENTS AND OTHER MANDATORY SPENDING

[By fiscal year, in billions of dollars]

	1986 Actual	1987 Base	Projections				
			1988	1989	1990	1991	1992
Means-tested programs:							
Medicaid	25.0	27.3	30.0	33.0	36.1	39.4	42.8
Food stamps	11.6	11.8	12.4	12.6	13.1	13.9	14.4
Supplemental security income [1]	10.3	10.8	12.2	12.1	11.8	13.5	14.3
Assistance payments	9.3	9.8	10.2	10.5	11.0	11.5	12.2
Veteran's pensions	3.9	3.8	3.8	3.8	3.7	3.7	3.6
Child nutrition	3.8	4.1	4.4	4.7	5.0	5.3	5.7
Guaranteed student loans	3.4	2.6	2.7	2.6	2.6	2.5	2.5
Other	3.1	3.1	4.8	6.1	6.3	6.5	6.8
Total, means-tested programs	70.3	73.3	80.5	85.5	89.6	96.3	102.3
Non-means-tested programs:							
Social Security	196.7	205.8	218.5	233.1	249.8	267.3	285.5
Medicare	74.2	78.1	90.0	99.6	111.7	124.7	139.1
Subtotal	270.9	283.9	308.4	332.6	361.5	392.0	424.6
Other retirement and disability:							
Federal civilian [2]	24.1	25.8	27.6	29.8	32.2	34.7	37.4
Military	17.6	18.1	19.1	20.2	21.5	22.8	24.3
Other	4.9	5.0	5.2	5.5	5.7	5.9	6.1
Subtotal	46.6	48.9	51.9	55.5	59.4	63.4	67.8
Unemployment compensation	17.8	18.0	18.3	19.0	19.2	19.9	20.9
Other programs:							
Veterans' benefits [3]	12.9	12.9	13.3	13.3	13.3	13.5	13.7
Farm price supports	25.8	24.8	25.3	24.2	21.8	19.2	18.3
General revenue sharing	5.1	0.1	.....	.....	.....	.....	.....
Social services	4.0	4.4	4.6	5.1	5.5	5.5	5.4
Other	3.9	14.7	9.8	8.8	8.1	7.4	7.5
Subtotal	51.7	56.8	53.0	51.4	48.6	45.7	44.8
Total, non-means-tested programs	387.0	407.6	431.6	458.6	488.7	521.0	558.0
Total outlays	457.3	481.0	512.0	544.1	578.4	617.4	660.3

[1] In 1988, SSI has 13 payments and in 1990 11 payments.
[2] Includes Coast Guard retirement.
[3] Includes veterans' compensation, readjustment benefits, life insurance, and housing programs.

Source: Congressional Budget Office, "The Economic and Budget Outlook: Fiscal Years 1988–1992."

TABLE 11.—BUDGET OUTLAYS, RECEIPTS, AND DEFICITS

[Dollar amounts in billions]

Fiscal year	Receipts		Outlays [1]		Deficit	
	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP
Historical Data						
1971	187.1	17.7	210.2	19.9	−23.0	2.2
1972	207.3	18.0	230.7	20.0	−23.4	2.0
1973	230.8	18.0	245.7	19.1	−14.9	1.2
1974	263.2	18.6	269.4	19.0	−6.1	0.4
1975	279.1	18.3	332.3	21.8	−53.2	3.5
1976	298.1	17.5	371.8	21.9	−73.7	4.3
1977	355.6	18.4	409.2	21.1	−53.6	2.8
1978	399.6	18.4	458.7	21.1	−59.2	2.7
1979	463.3	18.9	503.5	20.5	−40.2	1.6
1980	517.1	19.4	590.9	22.2	−73.8	2.8
1981	599.3	20.1	678.2	27.7	−78.9	2.6
1982	617.8	19.7	745.7	23.7	−127.9	4.1
1983	600.6	18.1	808.3	24.3	−207.8	6.3
1984	666.5	18.0	851.8	23.1	−185.3	5.0
1985	734.1	18.6	946.3	24.0	−212.3	5.4
1986	769.0	18.5	990.0	23.8	−221.0	5.3
Congressional Budget Office Baseline						
1987	834	19.0	1,008	22.9	−174	4.0
1988	900	19.2	1,069	22.8	−169	3.6
1989	962	19.1	1,124	22.3	−162	3.2
1990	1,050	19.4	1,184	21.9	−134	2.5
1991	1,138	19.6	1,247	21.5	−109	1.9
1992	1,220	19.7	1,305	21.1	−85	1.4
Administration's Budget as Estimated by CBO						
1987	834.2	19.0	1,010.4	23.0	−176.2	4.0
1988	905.4	19.3	1,039.8	22.1	−134.4	2.9
1989	969.1	19.3	1,086.2	21.6	−117.1	2.3
1990	1,058.8	19.6	1,136.7	21.0	−77.9	1.4
1991	1,146.9	19.8	1,182.6	20.4	−35.7	0.6
1992	1,230.6	19.9	1,231.9	19.9	−1.2	(2)

[1] Includes outlays (and deficits) that are off-budget under prior and current law.
[2] Less than 0.05 percent.

Source: Congressional Budget Office, "The Economic and Budget Outlook: Fiscal Years 1988–1992."

TABLE 12.—REVENUE, OUTLAYS, AND SURPLUS OR DEFICITS FOR THE TOTAL BUDGET, OASDHI TRUST FUNDS AND THE REMAINDER OF THE BUDGET AS A PERCENTAGE OF GROSS NATIONAL PRODUCT—1960–89

	Total budget			OASDHI			Remainder of the budget		
	Revenues	Outlays	Deficit (−) or surplus	Revenues [1]	Outlays [2]	Deficit (−) or surplus	Revenues	Outlays	Deficit (−) or surplus
1960	18.2	18.2	0.1	2.1	2.3	−.1	16.1	15.9	0.2
1961	18.2	18.8	.6	2.3	2.4	0	15.9	16.4	−.5
1962	17.9	19.2	−1.3	2.2	2.6	−.4	15.7	16.6	−.9
1963	18.1	18.9	−.8	2.4	2.7	−.3	15.7	16.2	−.5
1964	17.9	18.8	−.9	2.6	2.6	−.0	15.3	16.2	−.9
1965	17.3	17.6	−.2	2.5	2.6	−.1	14.8	15.0	−.2
1966	17.7	18.2	−.5	2.7	2.8	−.1	15.0	15.4	−.4
1967	18.8	19.8	−1.1	3.4	3.1	.3	15.4	16.7	−1.3
1968	17.9	20.9	−3.0	3.3	3.2	.1	14.6	17.7	−3.1
1969	20.1	19.8	.3	3.6	3.4	.1	16.5	16.4	.1
1970	19.5	19.8	−.3	3.9	3.6	.3	15.6	16.2	−.6
1971	17.7	19.9	−2.2	3.9	3.9	−.1	13.8	16.0	−2.2
1972	18.0	20.0	−2.0	3.9	4.0	−.1	14.1	16.0	−1.9
1973	18.0	19.1	−1.2	4.2	4.4	−.2	13.8	14.7	−.9
1974	18.6	19.0	−.4	4.6	4.5	.0	14.0	14.5	−.5
1975	18.3	21.8	−3.5	4.8	4.9	−.1	13.5	16.9	−3.4
1976	17.5	21.9	−4.3	4.6	5.1	−.5	12.9	16.8	−3.9
1977	18.4	21.1	−2.8	4.7	5.2	−.5	13.7	15.9	−2.2
1978	18.4	21.1	−2.7	4.7	5.1	−.4	13.7	16.0	−2.3
1979	18.9	20.5	−1.6	4.8	5.1	−.3	14.1	15.4	−1.3
1980	19.4	22.2	−2.8	5.1	5.4	−.2	14.3	16.8	−2.5
1981	20.1	22.7	−2.6	5.4	5.7	−.3	14.7	17.0	−2.3
1982	19.7	23.7	−4.1	5.7	6.1	−.4	14.0	17.6	−3.6
1983	18.1	24.3	−6.3	5.5	6.3	−.8	12.6	18.0	−5.4
1984	18.0	23.1	−5.0	5.6	6.0	−.4	12.4	17.1	−4.7
1985	18.6	24.0	−5.4	5.9	6.0	−.1	12.7	18.0	−5.3
1986	18.5	23.8	−5.3	6.1	6.0	.1	12.4	17.8	−5.4
1987 [3]	19.1	23.0	−3.9	6.1	5.8	.3	13.0	17.2	−4.2
1988 [3]	19.4	21.7	−2.3	6.4	5.7	.8	13.0	16.0	−3.0
1989 [3]	19.2	21.1	−1.8	6.5	5.7	.9	12.7	15.4	−2.7
1960–69 [4]	18.2	19.0	−.8	2.7	2.8	−.0	15.5	16.3	−.8
1970–79 [4]	18.3	20.4	−2.1	4.4	4.6	−.2	13.9	15.8	−1.9
1980–89 [4]									
1980–89 [4]	19.0	23.0	−4.0	5.8	5.9	−.0	13.2	17.1	−3.9

[1] OASDHI revenues include: OASI, DI, HI and Railroad Social Security equivalent account. OASDI receipts and outlays are off-budget in fiscal year 1986 and thereafter.

[2] OASDHI outlays equal the totals of OASI plus DI plus HI cash outgo.

[3] Projected under Administration policies.

[4] Average for these years.

Source: Office of Management and Budget, Historical Tables, Budget of the United States Government, Fiscal Year 1988; Tables 1.2, 2.4, 13.1.

TABLE 13.—CBO BASELINE BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (BY FISCAL YEAR)

[In billions of dollars]

	1987	1988	1989	1990	1991	1992
Baseline revenues:						
High-growth alternative	848	930	1,013	1,133	1,274	1,441
CBO baseline projection	834	900	962	1,050	1,138	1,220
Low-growth alternative	816	828	860	937	1,008	1,071
Baseline outlays:						
High-growth alternative	1,006	1,062	1,117	1,188	1,277	1,378
CBO baseline projection	1,008	1,069	1,124	1,184	1,247	1,305
Low-growth alternative	1,015	1,094	1,138	1,185	1,233	1,275
Baseline unified budget deficit:						
High-growth alternative	158	131	104	55	3	(63)
CBO baseline projection	174	169	162	134	109	85
Low-growth alternative	199	266	278	248	225	204

( ) means surplus.

Source: Congressional Budget Office, "The Economic and Budget Outlook: Fiscal Years 1988–1992."

TABLE 14.—ECONOMIC ASSUMPTIONS (BY CALENDAR YEAR)

	1987	1988	1989	1990	1991	1992
Gross national product (GNP):						
Real GNP (percent change, year to year):						
High-growth alternative	4.2	4.2	4.2	4.2	4.2	4.2
CBO baseline projection	2.8	3.0	3.0	3.1	2.7	2.5
Low-growth alternative	0.4	−2.6	4.7	3.4	2.9	2.9
Administration	3.1	3.5	3.6	3.6	3.5	3.4
Prices:						
GNP implicit price deflator (percent change, year to year):						
High-growth alternative	3.2	3.9	4.5	5.7	7.2	8.9
CBO baseline projection	3.2	3.8	4.1	4.2	4.2	4.2
Low-growth alternative	3.3	2.9	2.5	2.4	2.4	2.4
Administration	3.3	3.5	3.5	3.2	2.8	2.3
Consumer Price Index (percent change, year to year): [1]						
High-growth alternative	3.5	4.4	4.7	5.7	7.1	8.6
CBO baseline projection	3.5	4.3	4.3	4.3	4.3	4.3
Low-growth alternative	3.6	3.5	2.9	2.7	2.7	2.7
Administration	3.0	3.6	3.6	3.2	2.8	2.2
Civilian unemployment rate: (percent, annual average):						
High-growth alternative	6.4	6.0	5.7	5.3	5.0	4.6
CBO baseline projection	6.6	6.5	6.3	6.1	6.0	6.0
Low-growth alternative	7.8	9.9	9.1	8.7	8.6	8.4
Administration [2]	6.7	6.3	6.0	5.8	5.6	5.5
Interest rate (91-day Treasury bills, percent, annual average):						
High-growth alternative	4.9	5.5	6.3	7.5	9.0	10.8
CBO baseline projection	5.6	5.7	5.6	5.5	5.3	5.2
Low-growth alternative	7.0	6.0	5.4	4.9	4.5	4.2
Administration	5.4	5.0	5.3	4.7	4.2	3.6

[1] Urban wage and clerical workers.
[2] The Administration's projection is for the total labor force.

Source: Congressional Budget Office, "The Economic and Budget Outlook: Fiscal Years 1988–1992."

TABLE 15.—EFFECTS ON CBO BASELINE BUDGET PROJECTIONS OF SELECTED CHANGES IN ECONOMIC ASSUMPTIONS

[By fiscal year, in billions of dollars]

Economic variables	1987	1988	1989	1990	1991	1992
Real growth: Effect of 1-percentage-point higher annual rate beginning January 1987:						
Change in revenues	4	14	27	43	61	83
Change in budget outlays	−1	−3	−6	−10	−15	−22
Change in total deficit	−5	−16	−33	−52	−76	−105
Unemployment: Effect of 1-percentage-point lower annual rate beginning January 1987:						
Change in revenues	19	30	31	34	36	37
Change in budget outlays	−3	−6	−8	−11	−14	−17
Change in total deficit	−22	−36	−40	−45	−50	−54
Interest rates: Effect of 1-percentage-point higher annual rates beginning January 1987:						
Change in revenues	0	0	0	0	0	0
Changes in budget outlays	3	11	16	20	23	26
Change in total deficit	3	11	16	20	23	26
Inflation: Effect of 1-percentage-point higher annual rate beginning January 1987:						
Change in revenues	5	14	27	39	53	70
Change in budget outlays	3	15	26	38	51	64
Change in total deficit	−2	(1)	(1)	(1)	−2	−6

[1] Less than $500 million.

Note.—Totals include Social Security which is off-budget.

Source: Congressional Budget Office, "The Economic and Budget Outlook: Fiscal Years 1988–1992."

TABLE 16.—NET EFFECT OF MAJOR TAX LEGISLATION ENACTED IN 1981–1986 ON FISCAL YEAR RECEIPTS, 1986–1990

[By fiscal years, in billions of dollars]

	1986	1987	1988	1989	1990
Economic Recovery Tax Act of 1981	−209.8	−238.5	−258.7	−282.0	−309.4
Tax Equity and Fiscal Responsibility Act of 1982	46.7	56.8	58.8	58.2	59.9
Highway Revenue Act of 1982	4.5	4.7	4.9	5.1	5.1
Social Security Amendments of 1983	8.2	9.5	21.6	27.8	15.3
Interest and Dividends Tax Compliance Act of 1983	−2.1	−1.7	−1.8	−2.0	−2.5
Railroad Retirement Act of 1983	1.1	1.1	1.0	1.1	1.1
Deficit Reduction Act of 1984	16.1	22.0	25.3	27.7	31.1
Consolidated Omnibus Budget Reconciliation Act of 1985	.9	2.7	3.0	3.0	3.1
Federal Employees' Retirement System Act of 1986		−.4	−.8	−.8	−.9
Omnibus Budget Reconciliation Act of 1986		1.9	1.5	2.3	1.0
Superfund Amendments and Reauthorization Act of 1986		.4	.8	.9	.9
Continuing Resolution for 1987		1.9	2.7	2.4	2.5
Tax Reform Act of 1986		18.6	.9	−11.7	−9.0

Source: Budget of the United States Government: Fiscal Year 1988, p. 4–24.

TABLE 17.—SPENDING EFFECTS OF LEGISLATIVE CHANGES ENACTED DURING 1981–84 [1]

[By fiscal year, in billions of dollars; (— indicates outlay reduction, + outlay increase)]

	1982	1983	1984	1985	1986	1987	1988
1981–1984							
Trade adjustment assistance	−1.3	−0.9	−0.6	−0.4	−0.3	−0.3	−0.3
Social Security	−1.6	−4.5	−8.0	−9.1	−9.1	−9.6	−9.9
Unemployment compensation	−1.0	+2.3	+2.3	+.4	−.6	−.5	−.4
Aid to families with dependent children	−.9	−.9	−1.0	−1.0	−1.1	−1.2	−1.2
Child support enforcement	0	−.1	−.1	−.1	(*)	(*)	(*)
SSI	(*)	+.1	+.7	+.8	+.8	+.8	+.9
Social services block grant [2]	−.7	−.5	−.6	−.7	−.7	−.7	−.7
Earned income tax credit	0	0	0	(*)	+.3	+.2	+.2
Medicare: [3]							
Hospital insurance	−.4	−2.3	−2.6	−3.2	−5.7	−7.3	−9.1
SMI	−.2	−.6	−1.0	−2.3	−2.9	−3.2	−3.4
Total	−6.1	−7.4	−10.9	−15.6	−19.3	−21.8	−23.9
Taxation of Social Security [4]			−.9	−3.2	−3.8	−4.5	−5.4
Taxation of unemployment compensation [5]		−.7	−.7	−.6	−.5	−.5	([6])
Premiums [7]		+.1	+.3	−.4	−.2	−.1	−.1
Total including taxing of benefits and premiums	−6.1	−8.0	−12.2	−19.8	−23.8	−26.9	([6])

* Less than $50 million.

[1] These estimates are very uncertain. They require estimating what spending would have been under the policies in effect in 1981, comparing these estimates to actual spending for 1982 to 1984, and projecting the differences for 1985 through 1988. It is, however, increasingly difficult to estimate what spending would have been under the policies in effect in 1981. Since 1981, changes have occurred in the economy, in the demographic composition of the population, in the policies of State governments, and in Federal administrative practices. Each of these factors has potentially affected spending in these programs. It is very difficult to identify separately the independent effects of Federal legislation. Furthermore, hospitals and physicians have changed their behavior significantly in response to the legislation, and thus medicare outlay savings are exceedingly unreliable. These are January 1985 CBO estimates unless otherwise indicated.

[2] Change in funding ceiling.

[3] Does not include impact of premium changes.

[4] CBO estimate of January 1984.

[5] Department of Treasury estimate—January 1984.

[6] Not available.

[7] (—) indicates a premium increase. They include the impact of reduced SMI outlays on premiums.

TABLE 18.—PERCENTAGE CHANGE IN OUTLAYS RESULTING FROM LEGISLATIVE CHANGES ENACTED DURING 1981 TO 1984 ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

	Fiscal year—			
	1985	1986	1987	1988
Trade adjustment assistance	−9.0	−8.1	−8.1	−8.1
Social Security	−4.5	−4.5	−4.3	−4.1
Including taxation of benefits	−6.1	−6.1	−6.3	−6.4
Unemployment compensation	+2.4	−3.4	−2.8	−2.2
Including taxation of benefits	−1.2	−6.2	−5.6	(1)
Aid to families with dependent children	−10.5	−11.4	−12.0	−11.5
Supplemental security income	7.6	7.5	7.2	7.2
Social Services Block Grant	−20.6	−20.6	−20.6	−20.6
Earned income tax credit	.1	24.1	23.3	22.2
Medicare:				
Hospital insurance	−6.9	−10.0	−11.4	−12.6
SMI	−9.3	−10.1	−9.9	−9.2
Total	−7.2	−10.0	−10.9	−11.5
Total outlays	−4.9	−5.7	−6.0	−6.1
Including taxing of benefits and premiums	−6.2	−7.0	−7.4	(1)

[1] Not available.

Source: Compiled by Committee staff from information provided by CBO. These are January 1985 estimates. See footnote 1 of table 17.

TABLE 19.—OUTLAY SAVINGS IN WAYS AND MEANS PROGRAMS DUE TO PUBLIC LAW 99–177—1986 SEQUESTRATION

[In millions of dollars]

	Fiscal year—	
	1986	1987
Medicare	300	0
Title XX	109	7
Child Welfare Services (Foster care, adoption assistance, and child welfare services)	12	4
Child Support Enforcement	33	0
Unemployment compensation	1	0
Total	455	11

TABLE 20.—CHANGES FROM AUGUST 1985 BASELINE DEFICIT PROJECTION TO OCTOBER 1986 DEFICIT PROJECTION

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989
August 1985 baseline deficit projection	212	229	243	264
Legislative changes:				
1986 appropriations [1]	−11	−31	−52	−75
COBRA [2]	−5	−12	−10	−11
1986 sequestration	−11	−16	−18	−19
Tax Reform Act of 1986		−11	17	15
1987 appropriations		−6	−8	−9
1987 reconciliation [3]	1	−12	−2	−3
Debt-service changes [4]	−1	−6	−13	−21
Subtotal	−27	−95	−86	−123
Technical reestimates	22	11	8	10
Changes in economic assumptions [5]	13	6	−12	−24
Total changes	8	−78	−90	−137
October 1986 deficit projection	221	151	153	127

[1] Includes effect of changing from a baseline assuming annual real growth in defense funding of 3 percent after 1986 to a baseline assuming a real growth rate of zero. This change accounts for about $10 billion of the deficit reduction by 1989.

[2] Consolidated Omnibus Budget Reconciliation Act of 1985.

[3] Includes effect of Higher Education Amendments. The Omnibus Budget Reconciliation Act of 1986.

[4] Reflects savings in debt-service costs resulting from policy-related reductions in the deficit.

[5] Reflects impact of changes in economic assumptions between August 1985 and August 1986.

Note.—Includes both on- and off-budget outlays and revenue.

Source: Preliminary Congressional Budget Office estimates.

TABLE 21.—ESTIMATED CHANGES IN THE FEDERAL DEFICIT RESULTING FROM THE CONSOLIDATED OMNIBUS RECONCILIATION ACT OF 1985

[Fiscal years; in millions of dollars]

	1986	1987	1988	1989	1990	1991
Medicare	−463	−1,582	−2,250	−2,550	−2,827	−2,933
AFDC	1	2	0	0	0	0
SSI	0	1	1	1	1	1
Foster Care/Adoption Assistance	1	79	49	4	4	4
Social Security	2	4	4	3	3	−2
Unemployment Compensation	−1	−1	−1	−2	−2	−2
Customs Service User Fees	−25	−220	−230	−240	−250	−260
Trade Adjustment Assistance	80	109	113	117	121	125
Pension Benefit Guaranty Corporation	−155	−217	−236	−138	−96	−81
Total outlay reductions	−560	−1,825	−2,550	−2,805	−3,046	−3,148
Revenue increases	765	2,503	2,790	2,895	3,097	3,284
Total deficit reduction	1,325	4,328	5,340	5,700	6,143	6,432

Source: Congressional Budget Office.

TABLE 22.—ESTIMATED CHANGES IN THE FEDERAL DEFICIT RESULTING FROM THE OMNIBUS BUDGET RECONCILIATION ACT OF 1986

[By fiscal year, in billions of dollars] [1]

	1987	1988	1989
Asset sales:			
Export-Import Bank loans	−1.5	0.4	0.4
Rural housing loans	−1.7	.2	.2
Rural development loans	−1.0	−.6	−.5
Conrail	−2.2	.2	.2
College housing loans	−.6	−.2	.....
Other	−.9	.1	.1
Subtotal	−7.8	.2	.4
Offsetting receipts: [2]			
Customs user fees	−.8	−.8	−.8
Other	−.5	−.3	−.1
Subtotal	−1.3	−1.0	−.9
Spending changes:			
Repeal floor on indexing of Social Security	1.5	.5	.1
Other entitlement changes	.3	.8	−.3
Nondefense discretionary spending	3	.2	.1
Subtotal	2.1	1.5	−.1
Revenues: [2]			
Increased IRS enforcement [3]	−2.4	−.4	−.1
Increased IRS penalties	−1.0	−1.0	−1.0
Repeal floor on indexing of Social Security	−.7	−1.3	.....
Accelerate tax payments	−.7	−.3	−1.2
Subtotal	−4.7	−3.0	−2.3
Total	−11.7	−2.3	−2.9

[1] Includes savings in Higher Education Amendments.

[2] Negative numbers reflect increases in receipts.

[3] Represents the revenue effect of increasing appropriations for examination, collection, and related tax compliance activities. When updating baseline budget projections, revenues are adjusted for consistency with the assumed outlays; CBO does not show the indirect effects of individual appropriation bills on revenues.

Note.—Includes both on- and off-budget outlays and revenues.

Source: Preliminary Congressional Budget Office estimates.

TABLE 23.—SPENDING FOR FEDERAL PROGRAMS BENEFITING ELDERLY PEOPLE AND FAMILIES WITH CHILDREN

[In billions of dollars, fiscal year 1985] [1]

Program	Total	For elderly [2]	For families with children under age 18 [3]
Cash transfers:			
Social Security	184.1	[4] [5] 140.0	[5] 19.6
Railroad retirement	6.2	4.9	.2
Supplemental security income	8.5	[6] 3.9	1.1
AFDC	8.5	—	[7] 8.5
Earned income tax credit	[8] 1.1	[9] [10] .0	[10] 1.0
Unemployment compensation	16.0	.3	7.3
In-kind transfers:			
Food stamps [11]	11.6	[12] 1.0	[12] 9.4
Child nutrition [13]	5.3	—	[7] [13] 5.3
Elderly feeding program	.1	[7] .1	—
Medicare	[14] 64.1	[12] 57.5	[12] 4.7
Medicaid	21.4	[12] [15] 8.0	[12] [15] [16] 10.1
Housing assistance [17]	11.2	[18] 4.5	[18] 5.5
Low income home energy assistance program	2.1	[12] .6	[12] 1.0
Federal retirement and disability:			
Civilian	23.0	15.2	.8
Military	15.8	4.5	2.8
Veteran's benefits [19]	14.1	4.3	3.0
Education:			
Compensatory education	3.7	—	[20] 3.7
Impact aid	.7	—	[20] .7
Education for the handicapped	1.3	—	[20] 1.3
Other programs	1.7	—	[20] 1.7
Services and other aid			
Child support enforcement	.6	—	[7] .6
Human development [21]	1.9	[22] .7	[22] 1.1
Family social services	.7	—	[7] .7
Work incentive program	.3	—	[7] .3
Total	404.0	[23] 245.5	[23] 90.4
Other programs for which spending could not be allocated to subgroups:			
Coal miners [24]	1.6	(*)	(*)
Veteran's health care	[25] 8.5	(*)	(*)
Social services block grant	2.7	(*)	(*)
Community services block grant	.4	(*)	(*)
Training and employment [26]	3.4	(*)	(*)
Community service for older Americans	.3	(*)	(*)
Total	16.9	(*)	(*)

[1] Where available, spending values are outlays for benfits provided to recipients. When outlays were not available, obligations were used.

[2] Except where otherwise noted, elderly units are people age 65 or older, their spouses regardless of age, and any children under age 18 living with them. Benefits for elderly units with children will also be counted as benefits "For Families with Children Under Age 18."

[3] Except where otherwise noted, familes with children under age 18 are parents of children under age 18 and those children. Benefits for these units will also be counted as benefits "For Elderly" if one member is age 65 or over.

[4] Social Security spending for the elderly omits benefits for dependents under age 65, because program data do not separate dependents' benefits by age or primary beneficiary. Such benefits might have been as much as $10 billion in fiscal year 1985.

[5] Share derived from program data as of the end of calendar year 1983.

[6] Share derived from program data as of December 1984.

[7] Share assumed to be 100 percent due to eligibility criteria.

[8] Only the refundable portion of the earned income tax credit is considered. The tax expenditure portion, like all other tax expenditures, is omitted from the analysis.

[9] Less than $50 million.

[10] Share based on Congressional Budget Office simulations of earned income tax credit for calendar year 1984.

[11] Includes nutrition assistance for Puerto Rico. In fiscal year 1985, spending for this program was $0.8 billion.

[12] Recipient units for this item are defined as all related people living together, the Bureau of Census definition of families. These units may thus be larger than the nuclear families used generally in this analysis.

[13] Child nutrition includes school breakfast and lunches, special meal assistance, summer and child care feeding, special milk, the supplemental feeding program for women, infants, and children (WIC), and the commodity supplemental food program. Some benefits go to women who are pregnant with their first child.

[14] Excludes value of Supplemental Medical Insurance premiums; these totaled about $5.5 billion in fiscal year 1984.

[15] Share derived from program data for 1980 and from Current Population Survey data for calendar year 1984.

[16] Spending may be understated, due to lack of data for institutionalized recipients.

[17] Housing assistance includes Section 8, public and Indian housing, rent supplements, and Sections 235 and 236. Recipient units are all people sharing households. Units are elderly if at least one member is age 62 or over; units are considered families with children if at least one member is under age 18.

[18] Share estimated based on unpublished program data for fiscal year 1981.

[19] Veteran's benefits include veterans' pensions and compensation.

[20] Some benefits may go to families with children age 18 and over (and are students) and no children under age 18.

[21] Human Development includes Head Start, child abuse and family violence spending, programs for runaway and homeless youth, and Title III services and meals for the elderly.

[22] Share based on budgeted amounts for specific subprogram in fiscal year 1985.

[23] Totals for the elderly and for families with children include only those amounts for program spending that could be allocated by recipient type. Totals thus understate the amounts spent on two groups.

[24] Includes Special Benefits for Disabled Coal Miners and Black Lung Disability Benefits.

[25] Roughly one-third of beneficiaries are age 65 or older; costs for their care are higher than for nonelderly beneficiaries, but actual amounts are difficult to determine.

[26] Includes summer youth employment and training, dislocated worker assistance, Job Corps, veterans' employment, trade adjustment assistance, block grants to states, and programs for Native Americans and migrant and seasonal workers.

— No spending for this group, as a result of program rules.

(*) Unable to estimate share going to subgroups.

Note.—Except as noted, the shares of total outlays are based on Current Population Survey data for calendar year 1984.

Source: Budget of the United States Government, FY 1987; March 1985 Current Population Survey; Social Security Bulletin: Annual Statistical Supplement, 1984–85; Background Material and Data on Programs Within the Jurisdiction of the Committee on the Ways and Means, Committee Print WMCP: 99–2, February 22, 1985.

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TABLE 24.—CONGRESSIONAL BUDGET OFFICE ESTIMATES OF CHANGES RECOMMENDED BY THE PRESIDENT FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS RELATIVE TO FEBRUARY CBO BASELINE

[In millions of dollars]

Program	1987	1988	1989	1990	1991	1992
Medicare:						
Hospital insurance (HI) [1]	−155	−3,516	−3,682	−6,040	−8,106	−10,400
Supplementary medical insurance (SMI)	−120	−1,026	−958	−1,264	−1,517	−1,789
Net premium increase [2]	0	−251	−927	−1,847	−2,878	−4,108
Total—Medicare [3]	−275	−4,793	−5,567	−9,146	−12,501	−16,297
Trade adjustment assistance		−101	−135	−126	−128	−130
AFDC [4]		−240	−66	97	318	721
Child support enforcement [4]		−144	−194	−170	−174	−188
Foster care and adoption assistance	−36	−109	−139	−148	−155	−158
Pension Benefit Guaranty Corporation		−305	−292	−234	−240	−246
Total	−311	−5,692	−6,393	−9,727	−12,880	−16,298
Medicaid impact of AFDC proposals [5]		−78	−90	−135	−199	−286
Food stamp impact of AFDC proposals		53	43	8	−38	−93
Total	−311	−5,717	−6,440	−9,854	−13,117	−16,677
Addendum:						
Medicaid impact of Medicare		293	447	529	623	727
Medicare savings: [3]						
By regulation		−35	−40	−625	−765	−875
By legislation		−4,758	−5,527	−8,521	−11,736	−15,427

[1] Includes hospital capital regulations and assumes that the DRG increase will equal 1.5 percent for fiscal year 1988 and one-half of the market basket price increase thereafter.

[2] Indicates that $240 million of additional premium revenue will result in fiscal year 1988. The actual premium proposal will generate substantially more premium income. However this is offset by assumed enactment of the other SMI proposals which will decrease cost and consequently lower premium increases relative to the CBO baseline. This is the net of those two factors plus the Medicaid offset.

[3] Includes Medicaid offsets and assumes that a Medicaid cap is not enacted.

[4] Does not include any food stamp or Medicaid offsets.

[5] Assumes Medicaid cap is not enacted.

TABLE 25.—ADMINISTRATION ESTIMATES OF CHANGES RECOMMENDED BY THE PRESIDENT FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS RELATIVE TO CURRENT LAW

[In millions of dollars]

Program	1987	1988	1989	1990	1991	1992
Medicare:						
Hospital insurance (HI) [1]	NA	−3,486	−2,683	−3,494	−3,789	−4,074
Supplementary medical insurance (SMI)	NA	−1,201	−1,275	−1,646	−1,798	−2,160
Net premium increase [2]		−570	−1,828	−3,058	−4,448	−5,758
Total—Medicare [3]		−5,257	−5,786	−8,198	−10,035	−11,992
Trade adjustment assistance		−101	−135	−126	−128	−130
AFDC [4]		−322	−338	−211	−401	−646
Child support enforcement [4]		−146	−190	−171	−174	−192
Foster care and adoption assistance	−45	−130	−94	−101	−104	−103
Pension Benefit Guaranty Corporation		−305	−292	−234	−240	−246
Total	NA	−6,261	−6,835	−9,041	−11,082	−13,309
Medicaid impact of medicare proposals [5]		260	330	380	445	565
Medicaid impact of AFDC proposals [5]		−116	−151	−220	−315	−429
Food stamp impact of AFDC proposals		63	66	67	70	72
Total	NA	−6,054	6,590	−8,814	−10,882	−13,101

[1] Includes hospital capital regulations and assumes that the DRG increase will equal 1.5 percent for fiscal year 1988. The Administration has assumed that under current law, Medicare DRG price increases will be one-half of hospital market basket inflation and therefore this is not reflected as a legislative change.

[2] Indicates that $570 million of additional premium revenue will result in fiscal year 1988. This is the income resulting from the premium proposal. The premium offsets are refelcted in the SMI savings.

[3] Does not include any Medicaid offsets.

[4] Does not include any Medicaid offsets.

[5] Assumes Medicaid cap is not enacted.

TABLE 26.—CBO ESTIMATES OF MEDICARE, AFDC, CSE, FOSTER CARE, AND ADOPTION ASSISTANCE BUDGET IMPACTS BY PROVISION

[By fiscal year, in millions of dollars]

Provision	1988	1989	1990	1991	1992
			Medicare [1]		
Hospital reimbursement reductions					
Increase FY 1988 DRG rates by 1.5 percent and MB/2 thereafter	−540	−1,780	−3,370	−5,120	−7,100
Reduce indirect medical education rate	−870	−1,070	−1,180	−1,310	−1,450
Reduce direct medical education payments	−360	−465	−495	−530	−565
Eliminate periodic interim payments of disproportionate share hospitals	−710	−80	−90	−90	−100
Modify the OBRA provision regarding prompt payment	−1,320	−150	−190	−200	−200
Bill processing	−4	−4	−5	−5	−5
Incorporate capital costs into PPS	0	0	−570	−710	−810
Eliminate ROE for outpatient departments	−25	−25	−30	−30	−35
Limits on high-priced procedures	−5	−50	−65	−65	−75
Physician options					
Incorporate RAP physician payment into DRG	−5	−35	−90	−145	−220
Reduce reimbursement for certain specialty services	−10	−10	−10	−10	−10
Establish charges for new physicians	−105	−115	−135	−150	−170
Limit medicare payments for cataract surgery	−55	−85	−95	−100	−110
Repeal OBRA requirements relating to physician assistants	0	0	0	0	0
Repeal OBRA ESRD dialysis facility rates	−30	0	0	0	0
Eliminate ROE payments to SNF	−30	−30	−30	−30	−30
Reduce clinical laboratory fees	0	−90	−150	−170	−185
Repeal OBRA vision care provision	−50	−55	−60	−70	−80
DME rent/purchase	−10	−15	−20	−20	−25
Reduce payment for DME	−10	−15	−25	−25	−25
Repeal OBRA occupational therapy	−15	−15	−15	−20	−20
Beneficiaries					
Index part B deductible to MEI	−15	−45	−75	−110	−145
Premiums for current enrollees	0	−356	−824	−1,269	−1,701
Increase part B premium for new enrollees	−149	−439	−866	−1,445	−2,208
Raise part B premiums for third-party payers	−556	−870	−1,038	−1,225	−1,433
Make medicare secondary payer for certain disabled beneficiaries	−50	−50	−55	−65	−75
Eligibility modification	−200	−210	−235	−260	−285
Voucher	48	48	48	48	48

TABLE 26.—CBO ESTIMATES OF MEDICARE, AFDC, CSE, FOSTER CARE, AND ADOPTION ASSISTANCE BUDGET IMPACTS BY PROVISION—Continued

[By fiscal year, in millions of dollars]

Provision	1988	1989	1990	1991	1992
HMO		−10	−10	−10	−10
Outlay effect of additional State and local employees		2	5	12	20
Total, Medicare	−5,086	−6,014	−9,675	−13,124	−17,024
	Aid to Families With Dependent Children [2]				
Greater opportunities for work	89	244	384	600	756
End adult benefit when youngest child attains age 16 and limit definition of essential person	−105	−110	−110	−115	−120
Require minor mothers to live with parents	−20	−20	−20	−20	−20
Modify erroneous payment collections	−188	−167	−145	−131	121
Reduce ADP matching rate	−8	−5	−4	−8	−8
Reduce payments to States with excessive administrative costs	−8	−8	−8	−8	−8
Total, AFDC	−240	−66	97	318	721
	Child Support Enforcement				
Pay incentives only to certain States [3]	−190	−75	−50	−45	−45
Require CSE mandatory guidelines	−25	−90	−115	−125	−140
Reduce CSE matching fund rate	−25	−25			
Eliminate the special matching rate for CSE	−4	−4	−5	−4	−3
Total, CSE	−144	−194	−170	−174	−188
	Foster Care				
Limit Federal payments for administrative costs	−58	−80	−85	−87	−85
Limit payment for adoption assistance	−6	−12	−14	−16	−18
Repeal independent living grants	−45	−47	−49	−52	−55
Total, Foster Care	−109	−139	−148	−155	−158

[1] The estimates for Medicare illustrate the budget effect of enacting each provision. Each estimate, where appropriate, includes a premium offset but not the Medicaid impact.

[2] Does not include any food stamp or Medicaid offsets.

[3] Includes interaction with CSE mandatory guidelines.

TABLE 27.—ADMINISTRATION'S ESTIMATED BUDGET EFFECTS OF PRESIDENT'S REVENUE PROPOSALS, FISCAL YEARS 1987–1990 [1]

[Billions of dollars]

Provisions	1987	1988	1989	1990	1987–90 [1]
Tax provisions:					
Extension of Medicare payroll tax to all State and local Government employees		1.6	2.2	2.2	6.0
Expansion of employer share of FICA tax to include all cash tips		.2	.3	.3	.9
Extension of FICA tax to inactive duty earnings of military reservists and certain other earnings		.2	.3	.3	.8
Treatment of group-term life insurance as wages under FICA		(*)	.1	.1	.2
Railroad retirement tax proposals:					
Increase in railroad retirement payroll tax		.2	.4	.4	1.0
Extension in FUTA tax to railroad employment		.1	.2	.2	.4
Repeal of current gasohol, bus, and State and local government highway excise tax exemptions		.6	.6	.6	1.8
Black lung benefit tax proposals:					
Increase in coal excise tax		.3	.3	.3	.8
Treatment of black lung income maintenance benefits as taxable income		(*)	.2	.1	.4
Extension of Airport and Airway Trust Fund excise taxes [2]		1.6	2.8	3.0	7.4
Imposition of air and ship travel tax		(*)	(*)	(*)	(*)
Repeal of crude oil windfall profit tax					
Imposition of Coast Guard user fees [3]		.4	.5	.5	1.3
IRS funding		2.4	3.1	3.3	8.8
Certain new Treasury Department user fees:					
Internal Revenue Service		.1	.1	.1	.2
Bureau of Alcohol, Tobacco and Firearms		.1	.1	.1	.2
Customs Service user fees	(*)	.1	.1	.5	.7
Total [4]		3.5	4.9	5.2	13.4

[1] Totals may not add due to rounding.

[2] These revenues not included in total because they are assumed in the CBO baseline.

[3] Depending upon how this provision is drafted, it may fall under the jurisdiction of the Committee on Ways and Means.

[4] Total revenues within the jurisdiction of the Committee on Ways and Means. Total does not include the extension of Airport and Airway Trust Fund excise taxes, imposition of Coast Guard user fees, or IRS funding.

(*) Less than $50 million.

Source: Office of Tax Analysis, Department of the Treasury.

TABLE 28.—CBO'S ESTIMATED BUDGET EFFECTS OF PRESIDENT'S REVENUE PROPOSALS, FISCAL YEARS 1987–92[1]

[Millions of dollars]

Provisions	1987	1988	1989	1990	1991	1992
Extension of medicare payroll tax to all State and Local government employees		1,309	1,923	1,941	2,013	2,092
Expansion of employer share of FICA tax to include all cash tips		184	281	302	332	342
Extension on FICA tax to inactive duty earnings of military reservists and certain other earnings		240	329	347	376	403
Railroad retirement tax proposals:						
Increase in railroad retirement payroll tax		174	299	322	326	323
Extension in FUTA tax to railroad employment		103	129	121	141	80
Repeal of current gasohol, bus, and State and Local government highway excise tax exemptions		520	518	474	494	506
Black lung benefit tax proposals:						
Increase in coal excise tax		268	275	282	256	251
Treatment of black lung income maintenance benefits as taxable income		21	192	140	139	136
Repeal of crude oil windfall profit tax		0	0	0	0	0
Harbor maintenance trust fund		−10	−11	−11	−12	−12
Certain new Treasury Department user fees:						
Internal Revenue Service		60	60	60	60	60
Bureau of Alcohol, Tobacco and Firearms		50	50	50	50	50
Customs Service user fee	42	42	−19	396	411	422
Total[2]	42	2,961	4,026	4,424	4,586	4,653

[1] Table only contains revenue proposals within the jurisdiction of the Committee on Ways and Means and represent increases in revenues above the CBO baseline. Coast Guard user fees are not included in the table; but depending upon how the provision is drafted, it may fall under the jurdisdiction of the Committee on Ways and Means.

[2] Total revenues within the jurisdiction of the Committee on Ways and Means. Total does not include the extension of Airport and Airway trust fund excise taxes, imposition of Coast Guard user fees or IRS funding provisions.

TABLE 29.—THE ADMINISTRATION'S BUDGET PROGRAM AS ESTIMATED BY CBO

[By fiscal year, in billion of dollars]

Item	1988	1989	1990	1991	1992	Cumulative 5-year changes
CBO baseline deficit	170.6	164.4	136.8	109.5	84.0	.....
Defense increases	7.8	9.2	14.0	17.5	23.1	71.6
Deficit reductions:						
Revenue increases	−5.0	−7.1	−7.7	−8.0	−8.2	−36.0
Outlay reductions:						
Financial transactions	−6.6	−2.7	0.3	2.6	5.6	−0.7
Sale of physical assets	−2.8	−1.8	−1.7	−4.2	−2.1	−12.6
Spending delays	−6.5	−0.1	(1)	(1)	(1)	−6.6
User fees and offsetting receipts	−2.7	−4.5	−5.3	−6.3	−7.4	−26.2
Nondefense discretionary programs	−10.7	−20.5	−28.9	−36.4	−43.9	−140.3
Entitlement programs	−8.5	−15.9	−22.3	−27.8	−34.3	−108.8
Debt service savings	−1.2	−4.0	−7.3	−11.3	−15.6	−39.4
Subtotal, reductions	−43.9	−56.5	−72.9	−91.4	−105.9	−370.5
Total policy changes	−36.1	−47.3	−58.9	−73.8	−82.8	−298.9
Deficit, President's budget as estimated by CBO	134.4	117.1	77.9	35.7	1.2	.....

[1] Less than $50 million.

Note: Totals include Social Security, which is off-budget.

Sources: Congressional Budget Office; Office of Management and Budget.

Section 2. Description of Administration Proposals To Modify Spending for Programs Under the Jurisdiction of the Committee on Ways and Means

MEDICARE

Beneficiary Cost Sharing Proposals

The following five proposals will affect beneficiary costs.

In 1980, the Medicare part B premiums, the hospital inpatient and Part B deductible totaled $355. In 1987, these will total $809. This is a real increase of 65 percent.

Increase part B premium

Current law and background:

Under the original Medicare law, beneficiary premiums paid for 50 percent of the cost of Part B with the remaining 50 percent financed by Federal general revenues. However, between 1974 and 1982 the percentage increase in the Part B premium could not exceed the percentage increase in social security cash benefits payments. As a result, premiums financed only 24 percent of program costs in 1983. A temporary provision of law sets beneficiary premiums of 25 percent of program costs for elderly enrollees for 1984–88. The 1987 premium is $17.90 per month.

Beginning in 1989, the premium calculation would revert to an earlier method under which the premium amount is the lower of (1) an amount sufficient to cover one-half of program costs for the aged; or (2) the current premium amount increased by the percentage by which cash benefits were most recently increased under the cost-of-living-adjustment (COLA) provisions of the social security program.

Description of proposal:

The proposal would establish separate premiums for three categories of individuals as follows: for current enrollees, 25 percent; for new enrollees, 35 percent; and for third-party payers who buy Part B coverage (primarily State Medicaid programs and employers), 50 percent.

Current enrollees would be defined as persons who become entitled to Medicare before January 1, 1988.

Impact:

The Administration estimates that under its proposal the 1988 premium would be $22.80 for current enrollees, $31.90 for new enrollees, and $45.60 for third-party payers. Increased beneficiary payments would be offset by reductions in Federal general revenue contributions.

New enrollees would pay $153 million more in Part B premiums in 1988 and $3.8 billion more over the next 5 years as a result of this proposal.

PART B PREMIUM PROJECTIONS [1]

	Calendar year—					
	1987	1988	1989	1990	1991	1992
Administration estimates						
Current law	17.90	22.80	23.60	24.40	25.30	26.10
Proposed law (current enrollees)		22.80	26.60	29.40	32.90	35.70
(New enrollees)		31.90	37.20	41.20	46.90	49.90
(States and employers)		45.60	53.20	58.80	65.70	71.30
Fiscal year budget impact (in millions):						
From current enrollees			874	1,775	2,786	3,705
From new enrollees		153	410	717	1,076	1,471
From States and employers		575	862	964	1,074	1,173
Additional medicaid outlays		225	285	330	385	495
Net savings		503	1,861	3,126	4,551	5,854
CBO estimates						
Current law	17.90	22.00	22.90	23.90	24.90	26.00
Proposed law (current enrollees)		22.00	24.40	27.10	30.00	33.10
(New enrollees)		30.80	34.20	37.90	41.90	46.30
(States and employers)		43.30	47.90	53.00	58.60	64.50
Fiscal year budget impact (in millions):						
From current enrollees		0	356	824	1,269	1,701
From new enrollees		149	439	866	1,445	2,208
From States and employers		566	870	1,038	1,225	1,433
Net savings		715	1,665	2,728	3,939	5,342

[1] Projections do not assume any legislative or regulatory changes in part B which will affect program expenditures.

Delay eligibility

Current law and background:

Eligibility for medicare begins on the first day of the month in which an individual reaches age 65.

Description of proposal:

The Administration proposes through legislation to delay eligibility for one month to the first day of the month following the individual's 65th birthday.

Impact:

Approximately 2.1 million individuals would be affected by this proposal in 1988. The proposal would shift program costs, either to older individuals themselves or to employer-based health insurance plans that now cover such persons until they reach age 65 or are eligible for Medicare. This proposal was considered and rejected by the 98th and 99th Congresses.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
	Administration estimates				
Medicare:					
Part A	−190	−200	−220	−230	−240
Part B	−105	−135	−150	−165	−185
	−295	−335	−370	−395	−425
Medicaid offset	30	35	35	40	40
Total	−265	−300	−335	−355	−385
	CBO estimates				
Part A	−160	−170	−190	−200	−220
Part B	−110	−130	−150	−180	−200
Premium not paid due to delay	50	60	70	80	90
Premium offset	20	30	34	40	44
Medicaid offset	−4	−5	−6	−7	−7
Total (rounded)	−205	−215	−240	−265	−295

Effective date:

October 1, 1987.

Part B deductible

Current law and background:

Part B of Medicare pays 80 percent of the reasonable charge (or reasonable costs) for covered services in excess of an annual deductible ($75). The amount of the deductible is fixed by law. When the program was first enacted, it was set at $50. It was subsequently increased to $60 in 1972 and $75 in 1982.

Description of proposal:

The budget proposal would index the Medicare Part B deductible to the increase in the Medicare economic index (MEI). The MEI is

the index which is used to limit increases in the prevailing charge levels of physician fees reimbursable under the Part B program.

Impact:

The proposal would transfer a larger portion of the costs of covered services from the program to beneficiaries. The Administration estimates that under the proposal the deductible would be $77 in 1988, an increase of $2.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates					
Medicare	−25	−75	−150	−200	−275
Medicaid	5	10	15	20	30
Total	−20	−65	−135	−180	−245
CBO estimates					
Medicare	−20	−60	−100	−140	−190
Premiums	6	15	23	32	44
Medicaid	−1	−2	−4	−5	−7
Total (rounded)	−15	−50	−80	−115	−155

Effective date:

January 1, 1988.

Repeal of Specified OBRA Provisions

Current law and background:

OBRA included the following Medicare expansions: extension of coverage for vision care services performed by optometrists; expansion of Part B coverage for occupational therapy services; and expansion of Part B coverage for and separate payment for services of physicians assistants who furnish services under physician supervision. OBRA also established composite rates for end-stage renal disease (ESRD) facilities.

Description of proposal:

The budget proposal would repeal these provisions.

Impact:

Repeal of the OBRA provisions that provide coverage for certain services provided by optometrists, occupational therapists, and physician assistants could have an adverse impact on access to necessary care. In addition, in some instances, beneficiaries might be

forced to obtain these services from higher cost practitioners. Repeal of the ESRD provision would allow the Administration to make reductions in ESRD facility rates by regulation. Concern has been expressed that such reductions could have an adverse impact on quality and could result in the closing of some facilities.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates					
Physician assistants	−3	−4	−5	−7	−9
ESRD facility rates	−50	−55	−60	−65	−75
Occupational therapy	−60	−70	−85	−95	−110
Vision care	−210	−230	−260	−290	−320
Total	−323	−359	−410	−457	−514
CBO estimates					
Physician assistants	0	0	0	0	0
ESRD facility rates	−35	0	0	0	0
Occupational therapy	−20	−20	−20	−25	−25
Vision care	−60	−70	−75	−90	−100
Premiums	18	22	22	26	28
Medicaid	−4	−4	−4	−4	−5
Total (rounded)	−100	−70	−75	−95	−100

Effective date:

October 1, 1987.

Extension of Secondary Payer Provision

Current law and background:

Employers of 20 or more persons are required to offer aged employees and their spouses the same group health plan offered to other employees. Where a beneficiary elects such coverage, Medicare becomes the secondary payer. COBRA extended the provision on a temporary basis to disabled beneficiaries (or disabled family members) of an employer of 100 or more employees. COBRA also required GAO to study the impact of the provision.

Description of proposal:

The budget proposal would extend the COBRA provision to employers of 20 or more employees for the same temporary period.

Impact:

The proposal would provide uniformity in the secondary payer provisions. It could be argued that requiring medium-sized firms to offer such coverage could discourage them from employing persons who have a disabled family member. It could also drive up the cost of health insurance for an employer.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates					
HI and SMI	−120	−150	−165	−180	−195
CBO estimates					
HI	−35	−40	−40	−45	−50
SMI	−15	−15	−20	−25	−30
Premiums	2	4	4	5	5
Medicaid	0	−1	−1	−1	−1
Total (rounded)	−50	−50	−60	−65	−75

Effective date:

October 1, 1987.

Improve private health plan options

Current law and background:

Medicare payments are generally made for each covered service used by beneficiaries. Medicare also permits capitation (i.e., per person) payments to be made under a risk-sharing contract to health maintenance organizations (HMOs). Under risk-sharing, payments are equal to 95% of the adjusted average per capita cost (AAPCC) for Medicare enrollees. The entity assumes the risk of excess costs; but if the costs are lower than expected, it may retain some of the savings.

Description of proposal:

The budget proposes several management, regulatory, and legislative proposals to encourage additional use of capitation arrangements. In 1988, the capitation approach would be expanded to allow employer-based plans to assume responsibility for providing Medicare benefits to their retirees in exchange for a fixed government contribution. The Administration is also proposing to: permit private health plans to sign contracts setting monthly capitation rates for three years instead of one; eliminate existing restrictions on premiums and profits for small private health plans competing

in markets with three or more plans; and establish civil monetary penalties for private health plans failing to meet certain requirements. The Administration notes that it expects to establish a series of demonstration projects to explore ways in which Medicare could benefit from innovative private sector arrangements such as preferred provider organizations and negotiated provider arrangements.

Impact:

For several years, the Administration has recommended expansion of the capitation approach. In 1985, it proposed legislation for a Medicare voucher plan (introduced in December 1985 as the "Medicare Voucher Act of 1986"); this proposal also would broaden the types of health plans that would qualify as alternatives to traditional Medicare coverage.

[CBO estimates in millions of dollars]

	1988	1989	1990	1991	1992
Vouchers	50	50	50	50	50
Premium	−2	−2	−2	−2	−2
HMD		−10	−10	−10	−10
Total	48	38	38	38	38

Hospital Reimbursement

Establish Prospective Payment Policy for Reimbursement of Hospital Capital Costs

Current law and background:

Medicare law excludes capital costs from payment under the prospective payment system (PPS) until Oct. 1, 1987; at that time the Secretary has the authority to incorporate capital into PPS on a budget neutral basis (i.e., with no increase or decrease in outlays). Capital costs are currently paid for on a reasonable cost basis. The Omnibus Budget Reconciliation Act of 1986 (OBRA) reduced Medicare payments for such costs by 3.5% for portions of hospital accounting years occurring in FY87, 7% for portions occurring in FY88 and 10% for portions occurring in FY89.

Description of proposal:

The budget contains a regulatory proposal to gradually incorporate Medicare payment of hospital capital costs into PPS. This would be done on a budget neutral basis for two years, consistent with funding levels achieved under the OBRA provisions.

Under the proposal a fixed PPS payment would be made encompassing both operating and capital costs. The capital payment amount would include a national portion based on Medicare capital costs and, during the transition period, a hospital specific portion based on current reimbursement policies. Both the national portion

and the hospital specific portion of the capital payment amount would be separated between fixed plant and movable equipment costs. Payments for fixed plant would be phased into PPS over a ten year transition period; payments for movable equipment would be phased into PPS over a two-year transition period.

Impact:

The Administration's regulatory proposal is similar, though not identical, to the recommendations made by the Prospective Payment Assessment Commission (ProPAC) last year.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates			−600	−850	−980
CBO estimates	0	0	−570	−710	−810

Note: Savings from FYs 1988 and 1989 have already been "achieved" due to OBRA.

Effective date:

Cost reporting periods beginning on or after October 1, 1987.

Eliminate return on equity for hospital outpatient departments

Current law and background:

A return on equity (ROE) capital invested and used in providing patient care is considered an allowable cost under Medicare for for-profit health care providers. The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) provided for the phase-out over the FY87–FY89 period of ROE payments in connection with inpatient hospital services.

Description of proposal:

The budget proposal would provide by regulation for the elimination of ROE payments to hospital outpatient departments and by legislation for the elimination of such payments to skilled nursing facilities.

Impact:

Prior to implementation of PPS, hospitals were paid on the basis of reasonable costs. ROE payments were made to proprietary providers in partial recognition of profits they could not otherwise earn under the reasonable cost reimbursement methodology. Under PPS, efficient proprietary hospitals can potentially earn a profit if their costs are less than the PPS payments. However, skilled nursing facilities continue to be paid on a reasonable cost basis. Hospital outpatient services continue to be paid on a reasonable cost basis with the exception of facility services provided in connection with ambulatory surgery.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates					
Eliminate ROE	−30	−35	−40	−40	−45
Eliminate ROE for SNF	−30	−30	−30	−30	−30
Total	−60	−65	−70	−70	−75
CBO estimates					
Eliminate ROE for outpatient department	−25	−30	−35	−35	−40
Eliminate ROE for SNF	−30	−30	−30	−30	−30
Total	−55	−60	−65	−65	−70

Effective date:

October 1, 1987.

Restore discretion of the Secretary to establish the update factor for the prospective payment system

Current law and background:

OBRA set the rate of increase in PPS payments at 1.15% for FY87; for FY88 the increase is to be equal to the increase in the marketbasket index (index measuring hospital input prices) minus 2%. Previous law provided that the Secretary would set the update factor for FY88.

Description of proposal:

The budget would restore the discretion of the Secretary to set the update factor for FY88. The proposal would establish a maximum increase of 1.5%.

Impact:

The forecast of the marketbasket index for FY88 is 4.9%; therefore under the OBRA provision the increase would be 2.9%. The Administration budget estimates that the increase should be 1.5%; this figure may be subsequently revised. The Congressional Budget Office has recently reported that, on average, Medicare hospital DRG payments exceed Medicare hospital costs by 10%. The primary difference in the cost estimate below is that CBO shows the impact of allowing DRG increases to equal 50 percent of the hospital market basket while the administration has reflected this factor in its current services projection.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates	−510	−620	−660	−710	−750
CBO estimates	−540	−1,780	−3,370	−5,120	−7,100

Effective date:

October 1, 1987.

Direct medical education payments

Current law and background:

COBRA provided that the direct costs of approved graduate medical education programs are to be paid on the basis of a hospital specific cost amount per approved full-time resident. The Secretary is not permitted, except as otherwise specifically authorized, to limit the rate of increase on allowable costs of approved medical education activities.

Description of proposal:

The budget would repeal the COBRA prohibition against further limits on direct medical education costs. It would also eliminate certain educational payments including classroom and other educational costs of residency training programs, and payments for undergraduate nursing and allied health professional education.

Impact:

The Administration's FY87 budget also proposed elimination of certain educational payments; however, such action was precluded by the COBRA provision. Further, COBRA required the Secretary to conduct a study and report to Congress by December 31, 1987 on approved nursing and other health professions educational activities for which Medicare reimburses hospitals.

Exclusion of payments for educational program costs and costs of undergraduate nursing and allied health professions education means that Medicare's share of total costs would decline. The impact of this proposal on a hospital will depend on the size of its teaching program and how dependent it has been on Medicare payments to support this activity.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates	−310	−365	−375	−385	−395
CBO estimates	−360	−465	−495	−530	−565

Effective date:

Cost reporting periods beginning on or after July 1, 1987.

Reform Indirect Medical Education Payments

Current law and background:

Additional payments are made to hospitals under PPS for the indirect costs associated with approved medical education programs. An education adjustment factor, based on the ratio of interns and residents to beds, is used to determine such payments. COBRA specified that the factor is 8.1% calculated on a variable or curvilinear basis. (An adjustment made on this basis reflects the nonlinear cost relationship; namely, each increase in the resident-to-bed ratio does not result in a proportional increase in costs). The 8.1% factor applies for discharges occurring between May 1, 1986 and before October 1, 1989. For FY90 and beyond (when additional payments will no longer be made to hospitals serving a disproportionate share of low-income patients) the factor is 8.7%.

Description of proposal:

The budget proposal would reduce the factor to 4.05% calculated on the same curvilinear basis.

Impact:

The proposal would cut indirect medical education payments in half for FY88. The impact of the proposal on individual hospitals depends on the size of its intern and residency program.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates	−835	−1,165	−1,265	−1,345	−1,430
CBO estimates	−870	−1,070	−1,180	−1,310	−1,450

Effective date:

October 1, 1987.

Eliminate periodic interim payments for disproportionate share hospitals

Current law and background:

Prior to the enactment of OBRA, hospitals and certain other institutional providers meeting certain requirements were able to receive Medicare periodic interim payments (PIP) every 2 weeks based on estimated annual costs; a settlement was made at the end of the year based on actual bills. OBRA provided for the elimination of PIP for PPS hospitals, with certain exceptions, after certain prompt payment requirements are met. The excepted hospitals are those that receive a disproportionate share add-on payment of 5.1% or more and certain small rural hospitals.

Description of proposal:

The budget proposal would eliminate PIP for disproportionate share hospitals.

Impact:

The Administration estimates that this policy change would affect about 300 hospitals. Disproportionate share hospitals are likely to experience serious cash flow difficulties if PIP is eliminated.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates	−1,180	−90	−100	−90	−90
CBO estimates	−710	−80	−90	−90	−100

Effective date:

October 1, 1987.

Modify prompt payment timeliness standards

Current law and background:

OBRA required payment of 95% of Part A "clean" claims (claims requiring no further substantiation) within 30 days of receipt in FY87; 26 in FY88; 25 in FY89; and 24 thereafter. Similiar time frames are established for Part B claims except that a shorter time frame is established for participating physicians: 19 days in FY88; 18 in FY89; and 17 in FY90.

Description of proposal:

The budget proposal would modify the OBRA provision by setting the ceiling for all claims at 30 days in FY88 and future years.

Impact:

In 1986, the Department of Health and Human Services slowed down the average processing time for both Part A and Part B claims. The OBRA provision attempted to address some of the resulting concerns. There is concern that the OBRA ceilings are serving as standards rather than maximums. The Department has stated that its policy for FY87 is that intermediaries and carriers should make payments as fast as possible within the limits of their budgets; in FY88, payments are to be made 2 days prior to the ceiling. It estimates that the average processing time will be 20 days in FY87 and 26 days in FY88.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates	−890	−305	−355	−160	−180
CBO estimates:					
HI	−840	−70	−100	−100	−110
SMI	−480	−80	−90	−100	−110
Total	−1,320	−150	−190	−200	−220

Effective date:

October 1, 1987.

Other Reimbursement Reforms

Prospective payment of radiology, anesthesiology and pathology services provided by physicians to hospital inpatients

Current law and background:

Payments are made to physicians on the basis of reasonable charges per unit of service; this is referred to as fee for service.

Description of proposal:

The budget proposal would modify the mechanism used to pay for radiology, anesthesiology, and pathology (RAP) services provided to hospital inpatients. Medicare would pay an average rate per discharge for all RAP services associated with the diagnostic category.

Impact:

The fee-for-service payment methodology has been characterized as inherently inflationary. As a result several alternative payment methodologies are being studied. One alternative which has been examined is that of making predetermined payments by diagnosis related groups (DRGs) for physician services provided to hospital inpatients. However, a number of concerns have been raised with respect to implementation of this approach. It has been suggested

that it may be appropriate to institute payment reforms for a more narrowly defined classification of services. RAPs have been selected for several reasons including their close connection with hospitals and the fact that competitive forces do not operate with respect to utilization of RAP services since patients do not generally select their RAP provider.

The specifics of the Administration proposal are not currently available. Until the proposal is clarified it is difficult to assess potential impacts. Unresolved issues include the following: how will the DRG-based payment be determined; will the payment be made to the hospital or directly to the physicians; will beneficiary cost sharing be continued; will there be a requirement that the DRG payment be accepted as payment-in-full.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates	−10	−50	−120	−190	−290
CBO estimates:					
Medicare	−10	−50	−120	−190	−290
Premiums	5	15	29	46	70
Medicaid offset	−1	−2	−5	−7	−11
Total (rounded)	−5	−40	−95	−150	−230

Effective date:

July 1, 1988.

Reform physician payments

Current law and background:

Recent legislation has placed limits on increases in prevailing charges and on actual charges of nonparticipating physicians. In addition, OBRA placed specific limits on prevailing charges for cataract surgical procedures; prevailing charges for such services are to be reduced by 10% in FY87 and 2% in FY88; in no case could the reduction result in a prevailing charge that is less than 75% of the national average. The law also established criteria (so-called "inherent reasonableness" guidelines) which the Secretary would be required to use in cases where the Secretary proposes to depart from the standard reasonable charge calculations.

Description of proposal:

The budget proposal would include the following legislative reforms:

Reduce prevailing charges for cataract surgery by an additional 13% in FY88;

Establish customary charges for new physicians at approximately 80% of the prevailing charge;

Provide reductions for: physicians charges that are overpriced compared with other procedures; charges that vary excessively from one location to another; and global surgical fees that do not reflect recent reductions in hospital lengths of stay; and

Place limits on prevailing charges for certain medical or surgical services (excluding visits or consultations) where there is a large disparity between the charges of a specialist and nonspecialist.

Impact:

In lieu of across-the-board payment modifications, the Administration is focusing its budget recommendations on selective areas. The payment reduction proposals for certain overpriced procedures are intended to give the Secretary additional flexibility in implementing the "inherent reasonableness" provisions of OBRA. The proposed limitation on the differential between specialist and nonspecialist charges for specific services reflects the perception that such a differential may not be warranted in all cases.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
	Administration estimates				
Cataract surgery	−$100	−$100	−$100	−$100	−$100
New physicians	−70	−120	−130	−140	−160
Specialty variations	−10	−10	−10	−10	−10
Total	−180	−230	−240	−250	−270
	CBO estimates				
Reduce cataracts 13 percent	−70	−110	−120	−130	−140
New physicians 80 percent prev chrg	−130	−150	−175	−195	−220
Limit specialty differential	−10	−10	−10	−10	−10
Limits on high-priced procedures	−10	−60	−80	−85	−95
Premiums	46	74	84	93	100
Medicaid	−7	−12	−13	−15	−16
Total	−180	−270	−315	−340	−380

Reduce Clinical Laboratory Fee Schedule

Current law and background:

Diagnostic clinical laboratory services are paid according to carrier wide fee schedules. Services provided by independent labs and physician office labs are paid fee schedule amounts set at 60% of the prevailing charges that would have gone into effect on July 1, 1984. Independent labs include hospital outpatient labs serving

non-hospital patients, and also hospital outpatient labs serving hospital outpatients, unless the labs serves a 24 hour emergency room on a 24 hour basis. Hospital outpatient labs in that catagory are paid at 62% of the July 1, 1984 charges.

Description of proposal:

The budget proposal would reduce fee schedules currently set at 60% of prevailing to 55% of prevailing, and reduce fee schedules currently set at 62% of prevailing to 57% of prevailing.

Impact:

The Administration concludes that compared with Medicaid and with discounts available to physicians that the Medicare program is overpaying for clinical lab services.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates	0	−140	−230	−270	−320
CBO estimates	0	−90	−155	−180	−195

Durable medical equipment

Current law and background:

Payments for durable medical equipment (DME) are made on the basis of reasonable charges. The carrier determines whether rental or purchase is more cost effective and makes payment accordingly.

Description of proposal:

The budget proposal would mandate lease purchase or a rental cap for items over $120. For participating suppliers and for nonparticipating suppliers who offer lease purchase and accept assignment, payment would be equal to the reasonable purchase price plus up to 3 months reasonable rental. Title to the item would transfer to the beneficiary at the appropriate point. For other nonparticipating suppliers, payment would be made for rental payments up to the reasonable purchase price.

Impact:

Beneficiaries would have a strong incentive to obtain items from either participating suppliers or nonparticipating suppliers who offer lease purchase and accept assignment. Their out-of-pocket liability would be limited and they would obtain title to the item.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
	Administration estimates				
DME LCL	−10	−20	−30	−30	−30
DME lease/purchase	−15	−20	−25	−25	−30
Total	−25	−40	−55	−55	−60
	CBO estimates				
DME lease/purchase	−15	−20	−25	−25	−30
DME LCL	−10	−20	−30	−30	−30
Premium	5	10	11	11	11
Medicaid	−1	−2	−2	−2	−2
Total (rounded)	−25	−30	−45	−45	−50

Effective date:

January 1, 1988.

Process part A bills on a flow basis

Current law and background:

The responsibility for collecting deductibles and coinsurance in connection with stays in two or more hospitals is assigned in the chronological order in which the services are furnished.

Description of proposal:

The budget proposal would assign responsibility in the order in which hospitals submitted requests for Medicare payment.

Impact:

This proposal, similar to ones offered in previous budgets, is intended to facilitate efficient claims processing.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates	−4	−4	−5	−5	−5
CBO estimates	−4	−4	−5	−5	−5

Effective date:

October 1, 1987.

AID TO FAMILIES WITH DEPENDENT CHILDREN

The Administration's fiscal year 1988 budget request proposes seven major statutory changes in the AFDC program which the Administration estimates would produce $322 million in Federal AFDC savings in fiscal year 1988. The proposed AFDC changes, if enacted would also impact the food stamp and Medicaid programs. In fiscal year 1988, the net impact of the proposed AFDC policies on food stamps and Medicaid would be a reduction of $53 million.

Between fiscal years 1988 and 1990 the proposed statutory changes would produce AFDC savings of $871 million. The additional food stamp and Medicaid savings total $291 million during this same period, bringing the total reductions over 3 years to $1,162 million.

As a result of these changes, CBO estimates that 5,000 families would lose AFDC eligibility, and benefits to over 180,000 other families would be reduced. Roughly 20,000 families would receive larger AFDC benefits. Table 1, supplied by the Administration, provides similar estimates of the number of families that would lose, gain, or become ineligible as a result of their major proposals. Many of these proposals have been suggested in previous Administration budgets but have not been enacted into law.

The seven major statutory changes proposed by the Administration which have a budgetary impact are described in greater detail in the following pages.

TABLE 1.—ADMINISTRATION ESTIMATES OF NUMBER OF FAMILIES IMPACTED BY MAJOR AFDC LEGISLATIVE PROPOSALS DURING FIRST YEAR THE PROPOSALS ARE ENACTED

[In thousands]

Legislative proposal	Increase in benefits	Decrease in benefits	Made ineligible	Other [1]
GROW initiative		9		14
Remove employable caretaker relative when youngest child is 16	16	83		9
Limit assistance for minor mothers				
Limit essential persons		77		
Total	16	169	9	14

[1] Obtained a job or was deterred from receiving AFDC.

Source: HHS.

Greater Opportunities Through Work (GROW) Program

Current law and background:

As a condition of AFDC eligibility, persons 16 years of age or older, who are receiving or applying for AFDC, must register for

work and training. An individual may be exempt from the work registration requirement if he or she is unable to participate due to illness, incapacity, advanced age, full-time student status, remoteness from a work incentive (WIN) program site, the need to care for an ill or incapacitated household member, or working at least 30 hours per week. Also exempt is the parent caring for a child under 6 years of age; in a two-parent family, one parent is exempt if the second parent is registered for work.

Work registration is one component of the work incentive (WIN) program. All States operate a WIN program, which was established in 1967 to provide skills assessment, job training and employment placements to help AFDC recipients to become self-supporting. In addition, recent legislative changes have permitted, but not required, States to offer several other employment programs. These are WIN demonstrations, community work experience programs, job search, work supplementation, and grant diversion.

WIN demonstrations permit States to design an alternative to WIN administered solely by State welfare agencies. The regular WIN program is jointly administered by the Departments of Health and Human Services and Labor. In 1986, 26 States were operating WIN demonstrations. WIN and WIN demos are funded at a 90 percent Federal matching rate up to a capped appropriation. For FY 87 the appropriation totals $110 million; funds will run out on June 30, 1987 in anticipation that a new program will be authorized.

Community work experience programs (CWEP) were authorized by the Omnibus Budget Reconciliation Act of 1981 and are commonly referred to as workfare. Under CWEP, AFDC recipients may be required to perform community work in exchange for their AFDC benefits. All those required to register for WIN may be required to participate in CWEP. However, unlike WIN, CWEP may require parents with children 3 to 6 years old to participate if day care is available. Persons who are exempt from WIN because they live too far from a WIN project may also be required to participate in CWEP. States receive 50 percent Federal matching for the cost of administering CWEP. However, these costs may not include the cost of materials or equipment, or the cost of supervision of work, and may include only such other costs as the HHS Secretary permits. In October 1986, 24 States had opted to implement CWEP; most of these programs do not operate statewide.

The Tax Equity and Fiscal Responsibility Act of 1982 authorized the AFDC job search program, which permits States to require AFDC applicants and recipients to participate in a program of employment search beginning at the time of application. After an initial 8-week job search period for applicants, AFDC recipients may be required to participate in 8 weeks of job search each year. This means that in the first year of aid up to 16 weeks of job search may be required, with 8 weeks per year thereafter. Sixteen States implemented some form of job search in 1986; 3 additional States will begin a job search requirement in 1987.

Finally, States may operate a work supplementation or grant diversion program in which the AFDC benefit is used to underwrite a portion of the wages for a job. In 1986, 15 States were testing grant diversion or work supplementation.

Description of proposal:

In place of the WIN and WIN Demo programs, create the Greater Opportunities Through Work (GROW) program under which states must require employable recipients to participate in activities which will promote their self-sufficiency. Recipient children aged 16 and over, persons working in regular employment on a significant basis, young parents under 18 years of age and other parents and relatives responsible for children under 6 (except for during the first few months immediately after birth) would no longer be exempt. States also would no longer be able to exempt individuals from work programs because they are too remote or because another adult in the household already is subject to participation requirements.

Under GROW, required activities would differ for different categories of recipients. Young parents (under 19) and recipient children with less than a high school education would be required to continue in school. All other employable recipients would be required to participate in one or more of the following activities:

—Intensive employment search,
—CWEP,
—Work Supplementation or grant diversion,
—Activities provided under the Job Training Partnership Act,
—Time-limited training directed at immediate employment,
—Appropriate state-designed alternative employment-directed programs,
—Regular work on a significant basis, and
—Basic education activities—including remedial education or English as a Second Language (ESL)—for those who lack a high school diploma or Graduate Equivalency Degree (GED).

States would continue to have the option of requiring employable applicants to engage in employment search.

The following individuals would not be included in the definition of "employable" and would continue to be exempt from work/education requirements: the elderly or disabled, those needed at home to care for a disabled dependent, and women in the third trimester of pregnancy and in the initial months immediately after giving birth.

Participants in approved education or work activities would be eligible to receive supportive services provided either directly or on a reimbursable basis—such as child care and transportation—to the extent they are needed in order to participate.

For individuals who obtain jobs and leave AFDC, various types of Medicaid extensions are currently available. These extensions, which would not be affected by the proposal, can provide transitional Medicaid benefits for families for up to 15 months after they leave welfare. It should be noted that the Department of Labor has proposed a separate AFDC youth initiative which would replace the summer youth employment program.

Funding—State costs associated with implementation of approved work activities under GROW together with necessary supportive services associated with participation would be matched by Federal funds on an open-ended basis at the current AFDC administrative rate of 50 percent. The program assumes that there are

other sources of funding (e.g., JTPA and State and local funding for public schools) for the cost of training and education and, therefore, would not pay for the education and training activities of participants; however, the supportive services costs associated with participation in allowable education and training activities would be matched at the AFDC administrative rate.

Participation levels—States would be expected to achieve target participation levels, phased in over a five-year period. Overall, the caseload target participation level would be 20 percent in FY 1988, 30 percent in FY 1989, 40 percent in FY 1990, 50 percent in FY 1991 and 60 percent in FY 1992. There would be a higher target participation rate specifically for teenage recipients and teenage parents with the rates reaching 90 and 80 percent, respectively, for these two groups in FY 1992.

States would be expected to maintain monthly records on participation and to submit quarterly reports. The documents would be subject to periodic Federal audits. A system of financial penalties for states which fail to achieve required participation rates would be developed. The system would not be linked to the AFDC quality control system.

Sanctions—Sanctions for individuals refusing to participate in required GROW activities would be the same as currently exist: in determining AFDC eligibility and benefit amounts, no consideration would be given to the needs of the individual for three months for the first refusal and six months for each subsequent refusal. In the case of families eligible on the basis of an unemployed parent, the entire family would be made ineligible for AFDC benefits if the principal earner refused to participate. The same penalties would apply if non-exempt individuals quit their jobs, reduce their hours of work or earnings, or refuse a job without good cause. Sanctions would be extended to cover applicants and to full-time workers who are not so covered under current rules. Federal rules would be established governing the circumstances under which individuals could claim good cause for quitting work or refusing available jobs.

Impact:

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates:					
AFDC	8	−29	−110	−284	−517
Medicaid	−10	−37	−97	−185	−291
Total	−2	−66	−207	−469	−808
CBO estimates:					
AFDC	89	244	384	600	756
Food stamps	3	−12	−47	−93	−153
Medicaid	−1	−7	−42	−100	−182

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Total	91	225	295	−407	−421

Effective date:

October 1, 1987.

Limit assistance for minor mothers

Current law and background:

Under current law, minor parents with AFDC eligible dependent children may live at home with their parents (the grandparents of the dependent child) or may elect to leave home and establish a separate AFDC unit for themselves and the child. A provision enacted as part of the Deficit Reduction Act of 1984 stipulates that if the minor parent and child choose to live with the grandparent of the dependent child, the income of the grandparent(s) is considered in determining AFDC eligibility and benefits. In 1984, the administration proposed to extend AFDC eligibility to minor parents only under certain circumstances. The proposal was not enacted into law.

Description of proposal:

The administration is again proposing to provide assistance to a never-married minor parent and a dependent child in his or her care (or to a minor if she is pregnant) only if the minor parent and the child reside with the minor's parents or legal guardian. The proposed policy would not apply when: (1) the minor parent has no parent or legal guardian who is living or whose whereabouts are known; (2) the State agency determines that the health and safety of the minor parent or child would be seriously jeopardized if they lived with the minor caretaker's parents or legal guardian; or (3) the minor parent lived apart from his or her parents or legal guardian for at least 1 year prior to the birth of the child or prior to claiming aid, whichever is later.

Additionally, the proposal would require that the AFDC payment be made to the minor's parent or legal guardian unless the state determines that the parent or guardian would mismanage the payment.

Impact:

CBO estimates that 10,000 families would lose benefits and 5,000 families would be made eligible as a result of this provision.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates:					
AFDC	−20	−21	−21	−23	−23
Food Stamps	10	11	11	12	12
Medicaid	−24	−25	−27	−28	−30
Total	−34	−35	−37	−39	−41
CBO estimates:					
AFDC	−20	−20	−20	−20	−20
Food stamps	0	0	0	0	0
Medicaid	−7	−8	−8	−9	−9
Total	−27	−28	−28	−29	−29

Effective date:

October 1, 1987.

End employable parent's benefit when youngest child reaches age 16

Current law and background:

Under current law, the needs and income of a parent or caretaker relative may be considered when determining benefits for AFDC eligible children. This means, for example, that the needs and income of the person caring for two AFDC eligible children would be factored into the benefit calculation with the AFDC check based on a three-person family. If such parents or caretakers are employable (i,e., they are not WIN-exempt), they must register for work and training. The children may continue to qualify for AFDC—if all other eligibility criteria are met—until the youngest child is 18 or, at State option, age 19 if the child is in high school or vocational school and expected to complete the course of study before turning 19.

Description of proposal:

The administration again proposes to end AFDC benefits for the parent or caretaker when the youngest child reaches age 16. For those parents with a source of income who are excluded from the AFDC unit, the stepparent disregards would be applied. Because the stepparent policy exempts more income than would be disregarded for recipients of AFDC, some families could receive a higher AFDC benefit as a result of the change.

Impact:

The table below includes the impact of this proposal plus redefining essential persons. CBO estimates that 170,000 families would

lose benefits and 20,000 families would gain benefits as a result of the two provisions.

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates:					
AFDC	−106	−108	−111	−114	−118
Food stamps	53	55	56	58	60
Medicaid	−82	−89	−96	−102	−106
Total	−135	−142	−151	−158	−166
CBO estimates:					
AFDC	−105	−110	−110	−115	−120
Food stamps	50	55	55	55	60
Medicaid	−70	−75	−85	−90	−95
Total	−125	−130	−140	−150	−155

Effective date:

October 1, 1987.

Limit reimbursement of AFDC administrative costs

Current law and background:

State and local AFDC administrative and training costs are currently reimbursed with 50 percent Federal funds. There is no ceiling on the amount of reimbursement a State can receive. The Omnibus Budget Reconciliation Act of 1981 reduced the Federal match for AFDC training costs from 75 to 50 percent.

The cost associated with planning, design, development, or installation of a statewide mechanized claims processing or information retrieval system is reimbursed with 90 percent Federal funds.

Description of proposal:

In the fiscal year 1988 budget request, the President is proposing to restrict Federal administrative matching to States with particularly high administrative costs. States would be matched at the current 50 percent Federal Financial Participation (FFP) rate up to 125 percent of the national median State administrative expenditures per recipient, and at 25 percent FFP for costs between 125 percent and 150 percent of the median. FFP would be eliminated for costs over 150 percent of the median. Similar proposals are being advanced for Medicaid and Food Stamps.

States would be allowed to offset excess costs in AFDC by low costs in Medicaid or food stamps. Similarly, states with AFDC costs below the limit could offset higher costs in the other two programs. The administrative cost per recipient would be adjusted for State salary differentials (BLS State government salaries), an allowance

of $750,000 for core administrative costs, and other program-specific adjustments, as determined by the Secretary through a notice and comment process.

The budget also proposes to reduce, and eventually eliminate, the higher matching rate for statewide data systems development which is currently 90 percent. Initially, the reduction would be from 90 percent to 75 percent. After fiscal year 1990, the computer match would drop to 50 percent, the regular administrative cost matching rate.

Impact:

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
CBO and Administration estimates:					
Reduce computer match	−8	−5	−4	−8	−8
Limit excessive administrative cost	−8	−8	−8	−8	−8
Total	−16	−13	−12	−16	−16

Effective date:

October 1, 1987.

Redefine essential persons

Current law and background:

States may, at their option, consider the income and needs of certain individuals when determining the eligibility and benefits for a child. Persons "essential to the well-being of a recipient" may be included in the AFDC unit. States define who may be considered an essential person. Twenty-five jurisdictions have elected this option.

Description of the proposal:

The fiscal year 1988 budget proposes to restrict essential persons to those needed in the home to care for a child (so that the caretaker relative can work) or incapacitated adult.

Impact:

See discussion under the proposal entitled "End parent's benefit when youngest child reaches age 16."

Effective date:

October 1, 1987.

67-931 O - 87 - 29

Prospective collection of AFDC fiscal sanctions

Current law and background:

Currently, erroneous AFDC payments in excess of established threshold levels are disallowed. Under the established disallowance process, error rates are computed after the end of the fiscal year, and disallowances are to be collected following completion of a waiver process and subsequent appeals.

The threshold levels were phased down from FY 1981 to FY 1983, on a proportional basis, to four percent and reduced to three percent for FY 1984 and each year thereafter.

In April 1986, as part of the Consolidated Omnibus Budget Reconciliation Act, Congress imposed a moratorium on the collection of quality control (QC) disallowances for a two-year period, ending July 1988. QC disallowances have not been collected for FY 1981 or any year thereafter.

Description of proposal:

The Administration proposes to withhold expected State AFDC erroneous payments in excess of the three percent threshold prospectively on October 1 of each year beginning in FY 1989. Because of the moratorium, the FY 1988 disallowance would be withheld on July 1, 1988. Any necessary adjustments in the disallowance amounts would be made to the State's grant in the following fiscal year. Liabilities through FY 1987 would continue to be collected on a retrospective basis.

Impact:

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates	−188	−167	43	36	28
CBO estimates	−188	−167	−145	−131	121

CHILD SUPPORT ENFORCEMENT

The Administration's fiscal year 1988 budget includes four statutory changes in the child support enforcement program. These amendments would produce $146 million in savings for fiscal year 1988. The four major statutory changes are described below.

Incentive floor

Current law and description:

Incentive payments of at least six percent of AFDC child support collections are available to all States. The basic incentive payments for non-AFDC collections are also six percent, although non-AFDC incentive payments cannot exceed AFDC incentive payments in

FYs 1986 and 1987, and are capped at 105 percent in FY 1988, 110 percent in FY 1989, and 115 percent in FY 1990 and beyond. As States improve their cost-effectiveness performance above the benchmark of $1.40 collected (for either AFDC or non-AFDC collections) for each $1 of total administrative costs, the incentive payments will be increased up to a maximum payment of 10 percent for AFDC collections and 10 percent of non-AFDC collections.

Description of proposal:

Child support incentive payments would be eliminated to States with a cost-effectiveness ratio below 1.4 (i.e., collections on behalf of AFDC families that are not at least 1.4 times the costs of achieving all CSE collections). Other aspects of the incentive payments provision would stay in effect, specifically increasing the incentive payment percentage based on improved cost-effectiveness and the ceiling which limits the non-AFDC incentive payments based on the amount of the AFDC incentive payments. The Administration anticipates that 29 States would be affected by this proposal.

Impact:

See discussion under next proposal.

CSE mandatory guidelines

Current law and description:

Federal law requires States to have effective programs for establishing paternity, securing child support orders, and enforcing those orders. The Social Security Act does not, however, address itself to the adequacy or reasonableness of the amount of support ordered. This is currently left to the discretion of each State and its courts.

The Child Support Enforcement Amendments of 1984 (P.L. 98–378) require each State as of October 1, 1987, as a condition for approval of its State child support enforcement plan, to establish guidelines for child support obligations set within the State by law and by judicial or administrative action. Section 467 of the Act also requires a State to make these guidelines available to all judges and other officials who have the power to determine child support awards, although the guidelines need not be binding on these officials. Each State must furnish the Secretary of Health and Human Services with a copy of its guidelines.

Description of proposal:

The Administration proposes to amend section 467 of the Act to require States, as a condition of approval of their State plans, to adopt child support guidelines as a rebuttable presumption and to periodically review and modify support orders under appropriate circumstances. These guidelines must meet minimal Federal standards as set by the Secretary in regulations and must not discriminate between AFDC and non-AFDC families.

Impact:

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates:					
Remove incentive floor	−109	−119	−89	−93	−97
Mandate child support guidelines	−52	−90	−115	−127	−142
Interactive effect	42	47	38	50	50
Total	−119	−162	−166	−170	−189
CBO estimates:					
Remove incentive floor	−110	−120	−90	−95	−95
Mandate child support guidelines	−25	−90	−115	−125	−140
Interactive effect	20	45	40	50	50
Total	−115	−165	−165	−170	−185

Accelerate the reduction in Federal financial participation for State/local administrative expenses

Current law and background:

Under current law, Federal matching for State and local administrative expenses is scheduled to be reduced in two steps from 70 to 66 percent by fiscal year 1990. For fiscal year 1986 only, however, the Balanced Budget and Emergency Deficit Control Act reduced the Federal matching percentage to 66.65 percent.

Description of proposal:

The fiscal year 1988 budget proposes to permanently reduce the Federal matching rate to 66 percent in 1988 rather than in 1990 as currently scheduled.

Impact:

CBO estimates that this proposal will result in savings of $25 million in fiscal years 1988 and 1989, while the Administration estimates savings of $23 million in fiscal year 1988 and $24 million in fiscal year 1989.

Effective date:

October 1, 1987.

Reduce enhanced computer matching

Current law and background:

The Federal Government provides 90 percent of the funding for the development and installation of automated data processing systems for the child support enforcement program. For fiscal year

1986 only, the Balanced Budget and Emergency Deficit Control Act reduced the Federal share to 85.69 percent.

Description of the proposal:

The fiscal year 1988 budget proposes to reduce the special matching rate to 75 percent effective in FY 1988 for automated data processing and information retrieval systems and, effective in FY 1990, to the same matching rate applicable to other state and local administrative expenditures (66 percent).

Impact:

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates	−4	−4	−5	−4	−3
CBO estimates	−4	−4	−5	−4	−3

Effective date:

October 1, 1987.

CHILD WELFARE, FOSTER CARE, AND ADOPTION ASSISTANCE

Current law and background:

The child welfare, foster care and adoption assistance programs are authorized under title IV–E of the Social Security Act. These programs, which are aimed at providing assistance for the care of children removed from their homes, were modified by the Adoption Assistance and Child Welfare Act of 1980 (P.L. 96–272).

Repeal of program for independent living services for older foster care children

Current Law and background:

The 1985 budget reconciliation act established a new authorized entitlement program to assist States in planning and providing services directed at assisting foster care children age 16 and older in preparing for independent living. The program was authorized for fiscal year 1987 and 1988 but with the provision that States could carryover funds allocated to them for a year to the following year. Allocations to the States are according to the ratio which each State's foster care caseload bore to the national caseload in fiscal year 1984. This determination is to be made on the basis of the average number of children in federally matched foster care. No non-Federal matching funds are required of the States. The authorized entitlement is for $45 million for each year.

The funds are to be used for a variety of services, including: services aimed at enabling participants to complete high school or take

part in vocational training; training in daily living skills (budgetting, career planning, etc.; coordination of other services; outreach activities; and the development of individualized plans for the transition to independent living.

Description of the proposal:

The Administration proposes to repeal the foster care independent living legislative authorization and asks for reprogramming of the $45 million which has been appropriated for fiscal year 1987. These funds would be used to pay for additional funds which are needed to reimburse States for claims for foster care program costs for past years and for fiscal year 1987.

Impact:

[In millions of dollars]

	Fiscal year—					
	1987	1988	1989	1990	1991	1992
Administration estimates	−45	−45	0	0	0	0
CBO estimates	−36	−45	−47	−49	−52	−55

Effective date:

October 1, 1987.

Limit Federal payment for administrative costs for foster care to 50 percent of Federal maintenance payments to each State

Current law and background:

Title IV–E Foster Care is an open-ended entitlement program, where States are reimbursed based on actual claims for expenditures for: (1) payment made to families and institutions on behalf of children in care; (2) State administration; and (3) training for State staff.

Title IV–E Foster Care administrative costs are matched at an open-ended 50 percent rate, and training costs are matched at an open-ended 75 percent rate. Administrative costs consist primarily of service related activities, such as case planning, supervision, and management; recruitment and licensing of foster family homes and institutions; and other service related activities reimbursable under title IV–B (Child Welfare Services) and title XX (Social Services Block Grant). Allowable administrative costs also include normal administrative activities, such as the processing of maintenance payments.

Description of the proposal:

Limit the amount States can be reimbursed for title IV–E Foster Care administrative and training costs to 50 percent of the amount they are reimbursed for IV–E Foster Care maintenance payments.

Impact:

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates [1]	−73	−81	−86	−87	−84
CBO estimates	−58	−80	−85	−87	−85

[1] Actual savings depend upon the State distribution of projected increases in administrative costs.

Effective date:

October 1, 1987.

Limit payment for title IV-E adoption assistance administrative and training costs for each State to 50 percent of maintenance payments

Current law and background:

Title IV-E Adoption Assistance is an open-ended entitlement program through which States are reimbursed based on actual claims for expenditures for: (1) payments made to families on behalf of their adopted children; (2) State administration; and (3) training for State staff.

Title IV-E Adoption Assistance administrative costs are matched at an open-ended 50 percent rate. Additionally, training costs are matched at an open-ended 75 percent rate. Administrative costs in Adoption Assistance consist primarily of services, such as recruitment of adoptive families, home studies and preparing children for placement in adoptive homes, and other service related activities. For nearly all title IV-E children, the activities occur while the children are still in foster care. Therefore, States may claim the costs as administrative expenses under title IV-E Foster Care or under Adoption Assistance. For many foster care and adoption activities, costs are also reimbursable under title IV-B (Child Welfare Services) (at a closed-ended 75 percent match rate) and title XX (Social Services Block Grant). Allowable administrative costs also include normal administrative activities, such as the processing of adoption assistance payments.

Description of the proposal:

Limit the amount States can be reimbursed for administrative and training costs to 50 percent of the amount they are reimbursed for title IV-B Adoption Assistance payments. This proposal would not apply to the costs made reimbursable by the Tax Reform Act of 1986—i.e., the non-recurring costs of adoption to parents, such as court costs and home-study fees. States would continue to be reimbursed for those costs at the normal matching rate for administrative costs on an open-ended basis.

Impact:

[In millions of dollars]

	Fiscal year—				
	1988	1989	1990	1991	1992
Administration estimates	−12	−13	−15	−17	−19
CBO estimates	−6	−12	−14	−16	−18

Effective date:

October 1, 1987.

Permanently extend conditional ceilings on foster care funds and authority to transfer unused foster care funds to child welfare services

Current law and background:

Generally, title IV-E Foster Care is an open-ended entitlement program, unless Congress appropriates $266 million for the title IV-B Child Welfare Services program. A Child Welfare Services appropriation of $266 million would put a mandatory cap on title IV-E Foster Care funds. In the event of a mandatory cap, a State could transfer funds not needed for title IV-E Foster Care to title IV-B Child Welfare Services up to the amount of its ceiling, if the State meets the protections required by section 427(a) of the Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272). Congress has not since FY 1981 appropriated the amount of title IV-B Child Welfare Services funds which would have put a mandatory cap on title IV-E Foster Care.

However, when the title IV-B Child Welfare Services appropriation is less than the amount necessary (i.e., $266 million) to trigger a mandatory cap on title IV-E Foster Care funds, States can elect to come under a title IV-E Foster Care ceiling. A State which chooses to operate under a title IV-E ceiling, which spends less than its funds under the ceiling for Foster Care expenditures, and which meets the requirements of section 427(a) can transfer title IV-E funds not needed for Foster Care to title IV-B Child Welfare Services. The amount that may be transferred is further limited to the total of funds which, when added to the funds received under title IV-B, directly or by reallotment, equals the amount the State would be allotted under title IV-B if $266 million had been appropriated and allotted to all States.

The ceilings and the authority to transfer expire at the end of FY 1987.

Description of the proposal:

Make permanant the ceiling or allotment and allow States to transfer funds not used for foster care to title IV-B under the same conditions as exist under current law.

Impact

HHS indicates that they do not project a cost or savings from this proposal in comparison to the current practice of temporary extensions of this provision which has been the case.

Effective date:

October 1, 1987.

Change the factor for calculating the foster care cap to the lesser of five percent or the increase in the Consumer Price Index and change from 1978 to 1985 the base year for setting the foster care cap

Current law and background:

Generally, the Foster Care program is an open-ended entitlement program. However, if $266 million is appropriated for the title IV-B Child Welfare Services program, the title IV-E (Foster Care) program is capped for each State. If the appropriation is less than the trigger amount ($266 million), States can still elect to come under a Foster Care cap. If the State elects to operate under a ceiling and spends less than its funds under the ceiling for Foster Care expenditures, then the State may transfer funds not needed for Foster Care to title IV-B Child Welfare Services.

For most States, the cap or allotment limitation is the State's foster care expenditures in the base year (1978), changed each year by the lesser of two times the increase in the Consumer Price Index (CPI) or ten percent.

Description of the proposal:

This proposal would limit the annual change to the lesser of the increase in the Consumer Price Index or five percent each year and change the base year to 1985.

Impact:

Unless the title IV-B appropriation was $266 million and a mandatory foster care ceiling was imposed, there would be no limitation on the amount of foster care funds under a State's ceiling that could be transferred and there would be little savings from this proposal. The limitation on the amount of funds that a State can transfer is primarily related to the difference between what a State could receive under a title IV-B appropriation of $266 million and the actual appropriation for the year—which for FY 87 is $222.5 million.

Effective date:

October 1, 1987.

Make permanent the authorization of Federal matching payments for voluntary placement of foster care children

Current law and background:

P.L. 96-272 authorized the Federal matching of foster care maintenance payments on behalf of children removed from their homes pursuant to a voluntary placement agreement. The initial authori-

zation lasted three years, through FY 1983. Federal matching has been authorized on an annual basis since FY 1983.

Description of the proposal:

Make permanent the provisions of title IV-E which authorize the Federal matching of voluntary foster care.

Impact:

HHS estimates that there will be little additional cost.

Effective date:

October 1, 1987.

Require States to make title IV-E (foster care and adoption assistance) claims within one year

Current law and background:

States must file claims for expenditures under title IV-E (Foster Care and Adoption Assistance) within two years of the quarter of the expenditure.

Description of the proposal:

Require States to make title IV-E (Foster Care and Adoption Assistance) claims within one year of the quarter of the expenditure.

Impact:

HHS has indicated that this change could only result in a small amount of savings; not additional costs.

Effective date:

October 1, 1987.

TRADE ADJUSTMENT ASSISTANCE

Worker Program

No funding of program in fiscal year 1988; replace with proposed new consolidated worker adjustment assistance program

Current law and background:

Under the Trade Act of 1974 as amended, workers certified by the Secretary of Labor as eligible for trade adjustment assistance (TAA) may receive weekly trade readjustment allowances (TRA) equal to their weekly unemployment compensation (UC) after they exhaust UC for up to a combined maximum of 52 weeks of UC and TRA. Workers enrolled in approved training, however, may receive up to an additional 26 weeks of TRA immediately following exhaustion of their regular TRA if they are enrolled in or have completed an approved job search program. Job search and relocation allowances are also available to qualified workers. The program was reauthorized under the Consolidated Omnibus Budget Reconciliation Act of 1985 for six years through September 30, 1991.

The Administration's estimated funding levels for the current program are based on the following number of recipients and average level and duration of benefits:

CURRENT PROGRAM

Year	Outlays (millions)	Numbers of recipients (thousands)	Average weekly benefit	Weeks duration
1980	1,622	532	126	24
1981	1,440	281	140	37
1982	103	30	119	28
1983	37	30	120	10
1984	35	16	139	16
1985	43	21	133	16
1986 (estimated)	119	42	141	20

Note: Outlay figures shown above are for cash entitlement portion of the program: an additional $29.9 million is funded for training and job search and relocation allowances in fiscal year 1987.

Description of proposal:

The existing programs now providing job search, job training, and cash benefits to dislocated workers under TAA and Title III of the Job Training Partnership Act (JTPA) are proposed to be eliminated and replaced by a new consolidated program. This new program would assist all dislocated workers without regard to whether they are unemployed because of increased imports, or due to other causes. Services would include counseling, job search assistance, basic education, and job skill training. States would be responsible for operating the programs, which would be linked to the unemployment insurance system, with the private industry councils set up under JTPA given local oversight responsibilities. Funds from general revenues would be allocated quarterly to the States based on estimated need; 20 percent of total appropriations would be placed in a national reserve.

Impact:

The Administration is requesting $980 million for the new program in fiscal year 1988 to service about 700,000 workers, of which, about $650 million represents funds in addition to the $345 million available in fiscal year 1987 for the current TAA and JTPA dislocated worker programs. Income support payments cannot exceed 15 percent of the total funds available to the State.

Firm Program

Rescission of fiscal year 1987 appropriations and no funding of program in fiscal year 1988

Current law and background:

Under the Trade Act of 1974 as amended, firms certified eligible by the Secretary of Commerce for trade adjustment assistance may receive technical assistance upon approval of an adjustment plan. Industrywide technical assistance grants are also available. The program was reauthorized under the Consolidated Omnibus Budget Reconciliation Act of 1985 for 6 years until September 30, 1991.

Description of proposal:

The Administration requests rescission of budget authority of $11,400,000 remaining for fiscal year 1987 and no funding of the program in fiscal year 1988.

PENSION BENEFIT GUARANTY CORPORATION (PBGC)

Current law and background:

Under present law, if a defined benefit pension plan is terminated by a sponsoring employer with assets insufficient to pay benefits guaranteed by the Pension Benefit Guaranty Corporation (PBGC), then the PBGC pays the monthly benefits required by the particular plan, up to the guaranteed levels. Subject to certain dollar limits, the PBGC guarantees nonforfeitable retirement benefits other than those that become nonforfeitable on account of the termination of the plan.

Under the Single-Employer Pension Plan Amendments Act of 1986 (SEPPAA), the sponsor of a single-employer defined benefit plan may terminate the plan only in a standard termination or a distress termination. A standard termination occurs when the assets in the plan are sufficient to pay all benefit commitments. Benefit commitments generally include all benefits guaranteed by the PBGC and all benefits that would be guaranteed but for the insurance limits on the amounts or value of the benefits. In a standard termination, the plan sponsor has no further liability to the PBGC after plan termination.

A distress termination occurs in certain cases of financial hardship, such as bankruptcy, the inability of the sponsor to pay its debts when due unless the plan is terminated, or if pension costs become unreasonably burdensome due to a declining workforce. In the case of a distress termination, the sponsor is liable to the PBGC for the sum of (1) the total amount of all unfunded guaranteed benefits, up to 30 percent of the employer's net worth, (2) an amount equal to the excess (if any) of (a) 75 percent of the total amount of all unfunded guaranteed benefits over (b) the amount described in (1), and (3) interest on the amount due calculated from the termination date.

PBGC revenues include per-participant annual premiums charged to all employers with defined benefit pension plans, earnings on investments, and collections from sponsors of terminated plans. Single-employer plans currently pay an annual premium of $8.50 per participant. The PBGC has limited authority to impose a variable rate premium.

Under present law, employers are required to meet certain minimum funding standards with respect to a defined benefit pension plan.

Description of proposal:

Despite the 1986 increase in the premium rate (from an annual per-participant premium of $2.60 to $8.50) and the SEPPAA restrictions on the circumstances in which employers may terminate underfunded pension plans and shift pension liabilities to the PBGC, the termination of underfunded pension plans in failing companies

is projected to increase the PBGC's deficit from $2.3 billion at the end of 1986 to $4.2 billion by the end of 1988. Cash payments to retired workers are estimated to exceed PBGC's income in 1988, depleting its already inadequate reserves.

The President proposes to authorize the PBGC to charge higher premiums to those employers who do not adequately fund their pension promises. The current minimum funding requirements would be revised, in as yet unspecified ways, to protect both the pension expected by workers and the PBGC.

The proposal would be effective January 1, 1988.

UNEMPLOYMENT COMPENSATION

Decentralization of administrative funding for unemployment compensation

The Administration has proposed to decentralize funding for the administration of State unemployment compensation programs. States would levy their own taxes in lieu of the current Federal unemployment tax. A portion of the State-collected revenues would be passed to the Federal Government to fund Federal activities required by law. Current requirements for State law conformity and compliance with Federal law would be retained, and States would be required to maintain current activity levels for labor market and unemployment compensation information. Federal management of the unemployment trust fund, including State-collected revenues for administration, would continue. There would be no adverse effect on the Federal unified budget deficit. These changes would require amendments to the Social Security Act and the Federal Unemployment Tax Act.

Section 3. Administration's Revenue Proposals

The administration's fiscal year 1988 budget includes a number of revenue proposals that were contained in earlier budgets, and some new proposals. Together, the administration's proposals would increase revenues by $22.7 billion over the 1988–90 period.

Extension of Medicare Payroll Tax to All State and Local Government Employees

Present law

Before enactment of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) (P.L. 99–272), State and local government employees were covered for Social Security and Medicare benefits only if the State and the Secretary of Health and Human Services (HHS) entered into a voluntary agreement providing such coverage. In COBRA, the Congress extended Medicare coverage (and the corresponding hospital insurance payroll tax) on a mandatory basis to State and local government employees hired after March 31, 1986, for services performed after that date. Under present law, State and local government employees hired before April 1, 1986, still are not covered for Medicare unless a voluntary agreement is in effect. See Table 4 in the social security financing section for the percentage of State and local jobs covered under Social Security for each State. Currently, about 70 percent of all State and local government employees are covered under a voluntary agreement. Of the group not covered either on a voluntary or mandatory basis, it is estimated that approximately 75 percent ultimately receive Medicare coverage because of eligibility through a spouse or as a result of other covered employment. Medicare coverage (and the hospital insurance payroll tax) is mandatory for Federal employees.

For wages paid in 1987 to Medicare-covered employees, the total hospital insurance tax rate is 2.9 percent of the first $43,800 of wages. One-half of this tax is paid by the employee and one-half is paid by the employer.

President's budget proposal

The President's budget proposal would extend Medicare coverage on a mandatory basis to all employees of State and local governments not otherwise covered under present law, without regard to their dates of hire. These employees and their employers would become liable for the hospital insurance portion of the FICA tax, and the employees would earn credit toward Medicare eligibility based on their covered earnings.

This proposal would be effective January 1, 1988.

Expansion of Employer Share of FICA Tax to Include All Cash Tips

Present law

Under present law, cash tips received by an employee in the course of employment with a single employer are covered under Social Security for any calendar month in which the tips total at least $20. Employees must pay Social Security employee taxes on the total amount of covered tips but employers are only required to pay Social Security employer taxes on tips deemed to be wages under the Federal minimum wage law. Under that law, an employer can pay an employee less than the Federal minimum wage (but not less than half the minimum wage) to the extent that the employee receives tips which would bring the total remuneration to the level of the minimum wage. As a result, the Social Security tax liability of employers on tips received by their employees is generally limited to the difference between actual wages paid to the employee by the employer and the Federal minimum wage.

President's budget proposal

Under the President's budget proposal, all tips would be treated as wages for purposes of the employer FICA tax.

This proposal would be effective October 1, 1987.

Extend FICA Tax to Inactive Duty Earnings of Military Reservists and Certain Other Earnings

Present law

Under present law, certain forms of earnings paid to employees are exempt from FICA taxes. These earnings include:

Armed Forces Reservists. Approximately 1.4 million Armed Forces reservists do not receive Social Security credit and are not subject to Social Security taxes for their inactive duty earnings, because "inactive duty training" (generally, weekend training drill sessions) has not been included as covered employment under the law. Earnings from full time active duty or from "active duty for training" (training sessions lasting several weeks) constitute covered employment under current law.

Students. Services performed by a student under various circumstances in an academic setting are excluded from coverage under Social Security and the student's wages are not subject to FICA taxes. Such students include those employed by a school they are attending (or college club or an auxiliary nonprofit organization of a school) and student nurses employed by a hospital or nurses' training school they are attending.

Agricultural Workers. Under present law, cash remuneration paid to an employee in any taxable year for agricultural labor is excluded from the definition of wages unless the employee receives more than $150 during the year for such labor or the employee works for the employer more than 20 days during the year.

Individual Aged 18–21. Services performed by individuals under age 21 who are employed by their parents, even if employed in the parent's trade or business, do not currently constitute covered employment.

Spouses. Services performed by an individual in the employ of his spouse do not constitute covered employment.

President's budget proposal

The administration proposes to include services performed by reservists in "inactive duty training," by students employed by their educational institution, by individuals aged 18–21 working for their parents in a trade or business and by individuals working for their spouses in a trade or business, in the definition of covered employment. The administration also proposes, with respect to agricultural labor, that: (a) any remuneration for agricultural labor paid by an employer to an employee constitute wages if the employer pays more than $2,500 to all employees for such labor during the taxable year, (b) the $150 annual cash pay test continue to be applied if the $2,500 annual payroll test is not met, and (c) the 20-day test be eliminated.

These proposals would be effective January 1, 1988.

Treatment of Group-Term Life Insurance as Wages Under FICA

Present law

The cost of group-term life insurance provided by an employer to an employee is excluded from the definition of wages for purposes of the FICA tax. In 1987, the first $43,800 of wages is subject to a total FICA tax of 14.3 percent. One-half of this tax is paid by the employee and one-half is paid by the employer.

For income tax purposes, the cost of employer-provided group-term life insurance is includible in an employee's gross income to the extent that the coverage exceeds $50,000. Additionally, employer-provided group-term life insurance is included in an employee's gross income if the coverage is provided on a discriminatory basis.

President's budget proposal

Under the President's budget proposal, employer-provided group-term life insurance would be included in wages for FICA tax purposes if such insurance were includible in gross income for income tax purposes.

This proposal would be effective January 1, 1988

Increase in Railroad Retirement Payroll Tax

Present Law

The primary source of income to the railroad retirement account is payroll taxes levied on covered employers and their employees. Currently, both employers and employees pay a Tier I tax which is equivalent to the social security tax rate. In addition a Tier II tax is paid by both rail employers and employees. These taxes are applied to compensation paid to employees, up to a maximum annual amount. Under present law, the Tier II tax rate is 14.75 percent for employers and 4.25 percent for employees. The Tier II wage base in 1987 is $32,700.

President's budget proposal

The President's budget proposal would increase the railroad retirement Tier II taxes by 3.0 percentage points. This increase would be achieved in two steps—a 1.5 percentage point increase, effective January 1, 1988, and an additional 1.5 percentage point increase effective January 1, 1989. Additionally, it is understood that the President's budget proposal will include as yet undetermined proposals on rail sector financing of vested dual, or "windfall," benefits.

Extension of FUTA Tax to Railroad Employment

Present law

Under present law, railroad employment is not covered by the Federal-State unemployment insurance system. Instead, railroad employees are covered by a separate Railroad Sickness and Unemployment Insurance Fund, which is financed by payroll taxes levied on rail employers.

The railroad unemployment insurance (RRUI) program has permanent authority to borrow from the railroad retirement program in order to pay RRUI benefits. The Railroad Retirement Solvency Act of 1983, as modified by the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), established a loan repayment tax, beginning at 4.3 percent on July 1, 1986, and changing to 4.7 percent for 1987, 6.0 percent for 1988, 2.9 percent for 1989, and 3.2 percent for 1990. The tax expires after September 30, 1990.

COBRA further provided that an automatic surcharge of 3.5 percent on the loan repayment tax base will be levied if the RRUI program has to borrow from the retirement program. The surtax proceeds are to be used to repay such loans made after September 30, 1985, and is in effect for any year if on September 30 of the prior year any principal or interest from a loan after September 30, 1985 remains unpaid.

President's budget proposal

The President's budget proposal would extend coverage under the Federal-State unemployment insurance system to railroad employment. In addition, a transitional program would be developed to guarantee certain levels of benefits for rail workers who became unemployed after September 30, 1987. The Railroad Sickness and Unemployment Insurance Fund would continue to finance sickness payments and to repay the Fund's debt to the rail industry pension fund.

This proposal would be effective October 1, 1987.

Prior action

This provision has been included in prior years' budget proposals submitted by the President.

Repeal of Current Gasohol, Bus, and State and Local Government Highway Excise Tax Exemptions

Present law

Revenues from excise taxes on motor fuels, tires, and trucks and trailers, and a use tax on heavy highway vehicles, are deposited in the Highway Trust Fund. Trust Fund monies are used to finance authorized expenditures from the Highway Trust Fund. These Highway Trust Fund excise taxes are scheduled to expire after September 30, 1988.[1] Exemptions from all or part of some of these excise taxes have been provided for fuels containing alcohol, for private and public bus operators, and for State and local governments.

Alcohol fuels.—An exemption of 6 cents per gallon is provided for gasohol blends (i.e., 10 percent pure alcohol) of diesel, gasoline, and special motor fuels. (The current general tax rate is 15 cents per gallon for highway diesel fuel and 9 cents per gallon for gasoline and special motor fuels.) A 6-cents-per-gallon exemption also is provided for neat methanol and ethanol fuels which contain at least 85-percent alcohol produced from a substance other than petroleum or natural gas. A 4½-cents-per-gallon exemption is available for such alcohol blends produced from natural gas. These alcohol fuels exemptions are scheduled to expire after December 31, 1992.

Buses.—Private and public bus operators are exempt from the excise tax on tires.[2] Intercity common carrier buses, school buses, and qualified local buses are exempt from the 9-cents-per-gallon taxes on gasoline and special motor fuels. School buses and qualified local buses are also exempt from the 15-cents-per-gallon diesel fuel tax. In addition, private intercity buses receive a 3-cents-per-gallon refund (or credit) of the 15-cents-per-gallon highway diesel fuel tax. Nonqualified local buses [3] receive no exemption.

State and local governments.—Otherwise taxable products or articles used by State and local governments are exempt from all Highway Trust Fund excise taxes.

President's budget proposal

Under the President's budget proposal the exemptions from Highway Trust Fund excise taxes for alcohol fuels, buses, and State and local governments would be repealed.

This proposal would be effective October 1, 1987.

Prior action

The President proposed repealing the alcohol fuels and bus exemptions in his budget proposal for fiscal year 1987. The President also proposed repeal of the excise tax exemptions for gasohol and

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[1] See the discussion below on prior action for the status of pending highway excise tax legislation.

[2] The excise tax on tires currently applies to highway tires (other than bus tires) weighing more than 40 pounds, with a graduated tax up to a maximum of $10.50 plus 50 cents per pound in excess of 90 pounds (sec. 4071).

[3] No exemption is available for buses engaged in transportation that is not scheduled and is not along regular routes, unless the seating capacity of the bus is at least 20 adults (not including the driver).

income tax credit for alcohol fuels as part of his 1985 Tax Reform Proposal. Those proposals were not adopted as part of either the 1987 budget measure or tax reform legislation enacted on 1986.

The Tax Reform Act of 1986 (P.L. 99–514) reduced the exemption for neat alcohol fuels from 9 cents to 6 cents per gallon, for sales or uses after 1986.

The House of Representatives has approved a bill (H.R. 2) extending the Highway Trust Fund taxes and expenditure authority for five years, through September 30, 1993. The Senate has approved a four-year extension. The House-Senate Conference had not met to resolve differences in the legislation before publication date of this document.

Black Lung Benefit Tax Proposals

Increase in coal excise tax

Present law

Producers of domestically mined coal (other than lignite) pay an excise tax on sales of coal. Since April 1, 1986, the excise tax rates have been $1.10 per ton of coal from underground mines, and 55 cents per ton of coal from surface mines, except the amount of tax may not exceed 4.4 percent of the sales price.

Amounts equal to the revenues collected from the coal excise tax are appropriated automatically to the Black Lung Disability Trust Fund. The Trust Fund pays certain black lung disability benefits to coal miners (or their survivors) who have been disabled by black lung disease in cases where no coal mine operator is found responsible for the individual miner's disease. Present law includes an unlimited authorization for advances, repayable with interest, from general revenues to the Trust Fund. In the Consolidated Omnibus Budget Reconciliation Act of 1985, a 5-year moratorium was provided on interest accruals with respect to any repayable advance occurring after September 30, 1985, and before October 1, 1990.

The tax will revert to 50 cents on underground coal, 25 cents on surface coal, and a limit of 2 percent of price on the earlier of January 1, 1996, or the first January 1 as of which there is (1) no balance of repayable advances made to the Trust Fund, and (2) no unpaid interest on such advances.

President's budget proposal

The President's budget proposal would increase the excise tax receipts to the Trust Fund by $357 million in fiscal year 1988. The proposal does not include specific tax rates; however, the $357 million amount is 54 percent of estimated receipts in fiscal year 1988 under present law. Thus, the proposal when transmitted may be expected to recommend increases of approximately 50 percent in the coal excise tax.

The Administration estimates that these excise tax changes, and other changes relating to interest payments and certain as yet unspecified benefit reforms, would eliminate the Trust Fund deficit by the year 2007. As of the beginning of Fiscal Year 1987, the deficit was $2.88 billion.

This proposal would be effective October 1, 1987.

Treatment of black lung income maintenance benefits as taxable income

Present law

Title IV of the Federal Coal Mine Health and Safety Act of 1969 provided beneifits for miners totally disabled by black lung disease and for dependents of miners who had died from the disease or were totally disabled from the disease at death. The 1969 act was amended by the Black Lung Benefits Act of 1972, the Black Lung Benefits Reform Act of 1977, the Black Lung Revenue Act of 1977, and the Black Lung Benefits Revenue Act of 1981.

Black lung benefits reimburse disabled coal miners who have black lung disease for medical costs and lost income. These benefits are not taxable under present law.

President's budget proposal

The President's proposal would make the income maintenance portion of black lung benefits includible in the recipient's gross income.

This proposal would be effective January 1, 1988.

Extension of Airport and Airway Trust Fund Excise Taxes

Present law

Excise taxes are imposed on users of the Federally financed aviation system. Receipts from these taxes are deposited into the Airport and Airway Trust Fund, and expenditures may be made from the Trust Fund statute in the Internal Revenue Code.

The airport and airway excise taxes include—

(1) an 8-percent tax on air passenger, transportation;

(2) a 5-percent tax on domestic air transportation of property;

(3) a $3 per person international departure tax;

(4) a 12-cents-per-gallon tax on gasoline used in noncommercial aviation; [4] and

(5) a 14-cents-per-gallon tax on nongasoline fuels used in noncommercial aviation.

Exemptions from the fuels excise taxes have been provided for aircraft museums and for certain helicopter uses which do not utilize the facilities and services of the Federal airport and airway system.

The taxes on air transportation apply to the purchase of transportation services for persons or property beginning before January 1, 1988. The taxes on noncommercial aviation fuels expire after December 31, 1987.

President's budget proposal

The President's budget proposal would extend the present-law airport and airway system excise taxes for two additional years (i.e., through December 31, 1989, and would provide a two-year reauthorization of the Airport and Airway Trust Fund programs (fiscal years 1988–1989).

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[4] The 12-cents-per-gallon tax is composed of the regular 9-cents-per-gallon tax on gasoline and a special 3-cents-per-gallon add/on tax.

Imposition of Air and Ship Travel Tax

Present law

Present law imposes no general excise tax on international travel to and from the United States. A $3 per person international departure tax is imposed, however, as part of the funding for the Airport and Airway Trust Fund, applicable to certain international flights exempt from the 8-percent domestic passenger ticket tax.

President's budget proposal

The President proposes to impose an excise tax of $1 per ticket for international travel to and from the United States, its possessions, and its territories by airline or cruise ship carriers. Travel to and from Canada, Mexico, and travel to the United States that originates in U.S. possessions and territories would be exempt from the tax.

Revenue from this tax would be used to support international tourism and marketing activities, defined to include planning, developing and carrying out programs to stimulate and encourage foreigners to travel in the United States. The proposal would fund the $12 million annual budget of the U.S. Travel and Tourism Administration; any revenues collected in excess of the existing USTTA budget would go into the general fund of the Treasury.

This proposal would be effective January 1, 1988.

Repeal of Crude Oil and Windfall Profit Tax

Present law

Present law imposes an excise tax (the "crude oil windfall profit tax") on the windfall profit element of the price of domestically produced crude oil when it is removed from the premises on which it was produced. Generally, the windfall profit element is the excess of the sale price over the sum of an adjusted base price plus the applicable State severance tax adjustment. The windfall profit element may not exceed 90 percent of net income attributable to a barrel of crude oil.

The tax rates and recent base prices applicable to taxable crude oil are as follows:

Category of oil	Tax rate (percent)	Estimated base price [1] (per barrel)
Tier-1 oil (oil not in Tiers 1 or 2):		
Integrated producer	70	$18.49
Independent producer	50	19.07
Tier-2 oil (stripper and petroleum reserve oil):		
Integrated producer	60	20.89
Independent producer	30	NA
Tier-3 oil:		
Newly discovered oil	[2] 22.5	27.59
Incremental tertiary oil	30	27.13
Heavy oil	30	23.11

[1] Estimate for fourth quarter of 1986 based on SOI Bulletin (Summer 1986). The estimated base price for Tier-1 oil excludes North Slope oil.
[2] Phases down to 20 percent in 1988 and 15 percent in 1989 and subsequent years.

Independent producer stripper well oil is exempt from the tax. Additionally crude oil from a qualified governmental or a qualified charitable interest, certain front-end oil, certain Indian oil, certain Alaskan oil and, in the case of qualified royalty owners, up to three barrels per day of royalty production, are exempt from the tax.

The windfall profit tax is scheduled to phase out over a 33-month period, beginning January 1991, or earlier if revenues from the tax exceed a specified amount.

President's budget proposal

The President's budget proposal would repeal the crude oil windfall profit tax.

This proposal would be effective October 1, 1987.

Prior action

The Treasury Department's 1984 tax reform study proposed an immediate phase-out of the windfall profit tax as part of its comprehensive proposal on the taxation of the oil and gas industry.[5] However, this provision was not included in the President's 1985 Tax Reform Proposal or in the Tax Reform Act of 1986.

During the 99th Congress, the Senate approved legislation that would have repealed the windfall profit tax, effective October 1, 1987. The provision was a floor amendment to H.J. Res. 668, a bill to increase the Federal debt limit. H.J. Res. 668 was not enacted.

Imposition of Coast Guard User Fees

Present law

The Coast Guard provides various services to recreational and commercial boaters, including inspections, licenses, navigation aids, and search and rescue operations. These services are funded from general revenues.

President's budget proposal

The President's budget proposes a phased implementation of user fees for certain Coast Guard services. According to the proposal, fees for direct, transactional services (e.g., issuing licenses) would be set so as to recover the actual cost of providing the service. Additional fees on as yet unspecified activities sufficient to finance other services would be set in proportion to the Coast Guard's cost of providing the service to each class of users (e.g., recreational, commercial fishing, and deep-sea and inland commercial users).

No fees would be charged for core governmental functions carried out by the Coast Guard (e.g., defense, law enforcement, and polar ice operations).

The budget proposal estimates total fees of $355 million in fiscal year 1988 and $474 million annually thereafter, but does not specify the fee structures.

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[5] Tax Reform for Fairness, Simplicity, and Economic Growth: The Treasury Department Report to the President, November, 1984, Volume II, p. 243.

This proposal would be effective October 1, 1987.

Certain New Treasury Department User Fees

Internal Revenue Service

Present law

The Internal Revenue Service (IRS) currently does not charge taxpayers for issuing determination letters or private ruling letters. In 1984, the IRS issued 106,353 advanced determination letters on the qualification of corporate and self-employed pension plans, and acted on 69,613 applications and ruling requests from tax-exempt organizations. The IRS also issued 34,246 private ruling letters in response to taxpayers' requests during 1984.

President's budget proposal

The President's budget proposes to impose user fees for each determination letter and private ruling letter issued by the IRS. The level of the fees is not specified. These fees are proposed to become effective on October 1, 1987.

Prior action

This proposal has been included by the President in prior years' budget proposals.

Bureau of Alcohol, Tobacco, and Firearms

Present law

The Treasury Department's Bureau of Alcohol, Tobacco, and Firearms (BATF) collects licensing fees and excise taxes on various types of firearms, pursuant to the Federal Gun Control Act (19 U.S.C. 921 et seq.) and Code sections 5801–5872.

The Code imposes occupational taxes on brewers (sec. 5091) and on wholesale and retail dealers in liquor, wine and beer (secs. 5111 and 5121). The amount of these taxes ranges from $24 per year for retail beer dealers to $225 per year for wholesale liquor and wine dealers. BATF generally does not charge fees for permits related to alcohol and tobacco products.

President's budget proposal

The President's budget proposes increasing fees for services provided by BATF. It is understood that these proposals, when transmitted, may include an increase in firearms licensing fees; imposition of fees for permits to produce alcoholic beverages (pursuant to the Federal Alcohol Administration Act), to engage in certain industrial uses of alcohol (pursuant to Code sec. 5117(d)), and to procure or use certain tax-free or specially denatured distilled spirits (pursuant to Code sec. 5217); and imposition of licensing fees for occupations presently covered by alcohol occupational taxes. Similar fees would also be imposed on tobacco-related permits.

This proposal would be effective October 1, 1987.

Customs Service User Fee

Present law

As enacted in the Omnibus Budget Reconciliation Act of 1986, an *ad valorem* user fee is applied to all formal entries of merchandise imported for consumption in the amount of 0.22 percent during fiscal year 1987, dropping to 0.17 percent in fiscal year 1988, and expiring after September 30, 1989. The fees do not apply to articles classifiable in schedule 8 of the Tariff Schedules (including products containing U.S. components which are classifiable in item 807.00 of the Schedules).

President's budget proposal

The President's budget proposal would eliminate the exemption for articles containing U.S. components and would extend the fee beyond its scheduled expiration date.

The proposal would be effective July 1, 1986.

Section 4. Description of the Balanced Budget and Emergency Deficit Control Act of 1985 as Amended (Gramm-Rudman-Hollings) [1]

Overview

"The Balanced Budget and Emergency Deficit Control Act of 1985 (referred to as the "Act") mandates annual budget deficit reductions in order to achieve a balanced budget by 1991.

The principle enforcement mechanism of the Act is "sequestration," a procedure requiring automatic reductions in most Federal spending programs in the event that annual deficit targets are not met by congressional action.

However, on February 7, 1986, a special three-judge panel of the U.S. District Court ruled that the role of the Comptroller General in the "sequestration" process was unconstitutional as it violated the principle of separation of powers. This ruling was upheld by the Supreme Court on July 7, 1986. According to the Court, the powers conferred upon the Comptroller General are executive powers which cannot constitutionally be exercised by an officer removable by Congress.

Impact of Court Decision

The Congress had anticipated that the automatic "sequestration" procedure might be deemed unconstitutional and therefore had provided alternative procedures, under section 274(f) of the Act. Under these so-called "fallback" procedures set in motion by the Court decision, the automatic "sequestration" mechanism is replaced by a process requiring the affirmative action of the Congress and the President.

The Court also invalidated the February 1, 1986, sequestration order as being without legal force and effect, but stayed that judgment for 60 days to allow for any Congressional action which might be taken with regard to that sequestration. In mid-July, the Congress, operating under the "fallback" procedures, affirmed the fiscal year 1986 sequestration order, with several relatively minor modifications to reflect laws enacted between February and July.

Alternative Procedures for the Joint Reports of the Directors—"Fallback" Procedure

Section 274(f) of the Act provides that if any of the reporting procedures required of the Directors of the OMB, the CBO, and the

[1] This section borrows heavily from "A Summary: The Balanced Budget and Emergency Deficit Control Act of 1985 (P. L. 99-177)", Committee on the Budget, U.S. House of Representatives and various CBO, CRS and GAO reports required under the Act. This section has been revised to reflect changes resulting from the July 1986 Supreme Court decision regarding the constitutionality of the sequestration process.

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GAO under the Act are invalidated by the Court, then the CBO/OMB reports are transmitted to a Temporary Joint Committee on Deficit Reduction rather than to GAO, and GAO has no reporting role. The Joint Committee is composed of the entire membership of the Budget Committees of the House of Representatives and the Senate. The chairmen of the House and Senate Budget Committees act as cochairmen of the Joint Committee. Actions taken by the Joint Committee are determined by the majority vote of the members representing each House.

The purposes of the Joint Committee are to receive the CBO/OMB reports and to report a joint resolution setting forth the contents of such reports. A joint resolution should be reported to the House of Representatives and the Senate within five days after receipt of such a report. The provisions pertaining to consideration of a joint resolution in the event of a recession also apply to consideration of a joint resolution reported under this alternative procedure in the House and Senate, except that debate in each House shall be limited to two hours. Upon enactment, the joint resolution is deemed to be the GAO report otherwise required by the Act. Enactment of this joint resolution would trigger the sequestration process.

Amendments to Public Law 99-177

During 1986 a number of modifications were made to Public Law 99-177 by subsequent legislation. However, some of these amendments did not directly amend Public Law 99-177. Table 1 below lists these amendments.

Table 1. Listing of Modifications to Sequestration Procedures [1]

1. Panama Canal Commission Authorization Act, Fiscal Year 1987 (P.L. 99-368, H.R. 4409, August 1, 1986).

   Section 6 exempts the Commission from sequestration under the 1985 Balanced Budget Act to the extent that such reduction would result in payments to the Republic of Panama.

2. Insular Areas Regulation Act (P.L. 99-396, H.R. 2478, August 27, 1986).

   Section 19 requires that Guam, the Northern Mariana Islands, Puerto Rico, and the Virgin Islands be paid the full amounts required under the laws establishing their relationships with the United States, notwithstanding the 1985 Balanced Budget Act.

3. Omnibus Budget Reconciliation Act of 1986 (P.L. 99-509, H.R. 5300, October 21, 1986).

   Section 7001 exempts cost-of-living (COLA) increases of all Federal Government civilian and military disability and retirement programs from sequestration under the 1985 Balanced Budget Act (covering calendar years 1987 through 1991) so that

[1] The listing, which may not be complete, covers legislation affecting fiscal year 1987 and beyond.
Source: "Budget Sequestration Procedures For Fiscal Year 1987: Summary of Congressional Action". Robert Keith, CRS Report 86-1049G.

they are treated under the Act in the same manner as Social Security.

Section 7002 exempts the "Dual benefits payments account" (60-0111-0-1-601)—that part of railroad retiree benefits that are Federally funded through regular appropriations acts—from sequestration under the 1985 Balanced Budget Act so that the basic program benefits are treated under the Act in the same manner as other Federal retirement programs.

4. Omnibus Veterans' Benefits Improvement and Health Care Authorization Act of 1986 (P.L. 99-576, H.R. 5299, October 28, 1986).

Title VI exempts various veterans' benefit programs from sequestration under the 1985 Balanced Budget Act, and modifies procedures for the preparation of OMB/CBO joint reports on sequestration and the implementation of sequester orders with regard to veterans' programs.

5. Palau Compact of Free Association Act (P.L. 99-658, H.J. Res. 626, November 14, 1986).

Section 104(f) provides that appropriated amounts required to be paid under the Compact of Free Association Act of 1985 or the Palau Compact of Free Association Act shall not be reduced under the 1985 Balanced Budget Act or other laws.

Maximum Deficit Amounts

The Act stipulates that budget deficits must be decreased annually and specifies measures that must be taken to achieve this result. The maximum deficit amounts (MDA) specified by the Act are:

MAXIMUM DEFICIT

Fiscal year:	Billions
1986	$171.9
1987	144.0
1988	108.0
1989	72.0
1990	36.0
1991	Zero

If the deficit is estimated to exceed the maximum level by any amount in 1986 and 1991, or by more than $10 billion in 1987-1990, an automatic spending reduction procedure (since July 7, 1986, a "fallback" procedure) is triggered to eliminate the excess deficit through the sequestration of budgetary resources. Except for trust and special funds, this involves the permanent cancellation of new budget authority and other authority to obligate and expend funds. For 1986, the outlay reduction was limited by the Act to a maximum of $11.7 billion, regardless of the amount of the excess deficit. In later years, the amount of outlay reductions necessary to reach the deficit target is not limited.

Sequestration may only be triggered once per fiscal year and any sequestration order issued remains in effect for that fiscal year only. COLA reductions (which were effected in 1986 and are now largely exempt (see Table 1)) last for one year from the time the reduction takes place, and there are no catch-up provisions. The process must start all over again to determine whether a sequestration order would be issued in the next fiscal year.

Sequestration Timetable

The first step in the sequestration process is a joint report by the Director of the Office of Management and Budget (OMB) and the Director of the Congressional Budget Office (CBO) to the Congress. The timetable for the entire sequestration process is shown in Table 2.

TABLE 2.—SEQUESTRATION TIMETABLE [1]

	Fiscal years 1987–1991
Initial snapshot by CBO/OMB	August 15.
Initial joint CBO/OMB sequestration report	August 20.
Temporary Joint Budget Committee reports joint resolution	August 25—5 calendar days after receipt of CBO/OMB report.[2]
House and Senate act on joint resolution	5 legislative days after Joint Committee reports joint resolution.
Initial Presidential sequestration order	Follows enactment of joint resolution.
Presidential notification re: Defense contracts	September 5.
GAO certifies defense contract savings	September 30.
Funds deferred pursuant to order	October 1.[3]
Modifying sequestration order re: Defense contracts	GAO findings are incorporated into final reports.
Final CBO/OMB snapshot	Before October 5.
Final joint CBO/OMB sequestration report	October 5.
Temporary Joint Budget Committee reports joint resolution	5 calendar days after receipt of CBO/OMB report.
House and Senate act on joint resolution	5 legislative days after Joint Committee reports joint resolution.
Final Presidential sequestration order	Following enactment of joint resolution.
Funds cancelled pursuant to order	Following enactment of joint resolution.
GAO compliance report	November 15.

[1] Pursuant to "fallback" procedures specified in Section 274(f) of the Act.
[2] Congress must be in session to receive the CBO/OMB reports.
[3] Assumes that initial sequestration order occurs by October 1.

On August 20, the Directors of CBO and OMB issue a joint report to the Congress on the deficit for the coming fiscal year.

The report contains the following items for such fiscal year:

The estimated levels of total outlays and total revenues, the amount of any excess deficit, and whether such excess is greater than $10 billion (zero in fiscal years 1986 and 1991);

The estimated rate of real economic growth (for each quarter of such year and for each of the last two quarters of the preceding year); and whether negative real economic growth for two or more consecutive quarters occurs.

If the deficit is $10 billion over the MDA ($0 in fiscal years 1986 and 1991), then the base from which reductions (sequestrations) are to be made; by account and by program, project, and activity (PPA) within each account for defense; and the amounts and percentages by which such accounts and PPAs must be reduced during such fiscal year to eliminate the excess.

The amount of automatic spending increases (COLAs) which are scheduled to take effect in programs with such increases, the amount and percentage by which such increases are to be reduced, the amount of deficit excess eliminated by such reductions, and the percentage (if any) of such increases after the reductions.

The amount of savings achieved in programs with special rules.

Within 5 calendar days after receiving the CBO/OMB report (August 25, assuming that Congress is in session at that time) the Temporary Joint Committee on Deficit Reduction must report a joint "sequester" resolution setting forth the contents of the CBO/OMB report, without change. The House and Senate are required to act on this joint "sequester" resolution within 5 legislative days of its having been reported.

Upon enactment of the joint resolution, the President is required to issue a sequester order that conforms to the matter in the joint resolution. This is called the "initial" order. It must eliminate the full amount of the excess deficit in strict accordance with the requirements of the Act, e.g. special rules, exempted program, 50/50 defense/nondefense split.

Additionally, the President must transmit to Congress a message containing the same information as required in the CBO/OMB report, and specifying within each defense and nondefense account for each program project or activity, or budget account activity, the base from which such sequestration is made and the amounts which are to be sequestered from each PPA. The President may also submit such other supporting details as he deems appropriate. This message is referred to all committees with jurisdiction over programs, projects, and activities affected by the order.

The President may also submit to Congress alternatives to the sequestration order. Their form is not defined and procedures for their consideration by Congress are not specified. It is assumed that the appropriate committees of jurisdiction would review any alternatives submitted.

A second snapshot of the deficit is made by CBO/OMB before they issue a revised report on October 5. This revised report is received by the Joint Committee and the process outlined above is repeated, at the conclusion of which a final sequestration order may or may not be issued by the President. Congress could reject, or the

President could veto, the final joint sequestration resolution, or undertake alternative deficit reduction measures to make a sequester unnecessary.

If an initial sequestration order is issued by the President, Congress can modify or totally avoid a final sequestration order by enacting legislation between the two snapshots of the deficit made on August 15 and October 5. Enacted legislation which reduces (or eliminates) the excess deficit will result in a modified (or no) order. If the deficit increases, the order is adjusted as well. However, if legislation is enacted after the second snapshot is taken by CBO/OMB, the order is not automatically modified. Such legislation must contain provisions which specifically modify or supersede the pending order.

If an initial sequestration order was not issued because the MDA was not exceeded by $10 billion for fiscal years 1987–1990 ($0 for 1991), but legislation is enacted between August 15 and October 5 which increases the deficit such that the MDA is exceeded by more than $10 billion ($0 billion for 1991), then a final sequestration order will be voted on.

SEQUESTRATION

"Sequestration" is the formula reduction of "budgetary resources" required by the Act. It occurs, once each fiscal year, if and only if CBO/OMB project that the MDA will be exceeded by more than a specified cushion. The cushion is zero in fiscal 1986 and 1991, and $10 billion in fiscal 1987–1990.

The Snapshot

Twice each fiscal year, in August and October, the Directors of CBO and OMB take a "snapshot" of (1) spending and tax laws, and (2) economic, demographic, and other estimating factors. Using existing Federal laws and estimating factors they project total outlays, revenues, and deficit—the budget base.

The August snapshot is preliminary. Although the Directors make resulting budget and sequestration calculations, spending is not canceled as a result of that snapshot. Spending is merely deferred until the results of the October snapshot are known. Thus the August snapshot and calculations are primarily a warning.

The budget picture is frozen on the date of the final snapshot. The Directors do not account for any legislation enacted after the snapshot nor do they consider any new economic or demographic data obtained after the snapshot. There is only one snapshot on January 10 for fiscal year 1986.

For fiscal 1987–1991, the final snapshot date occurs just before October 5 (i.e., just a few days after the start of the fiscal year).

The Budget Base

The Directors calculate the budget base by using the Federal laws and estimating factors that were frozen in place on the snapshot date. The calculations employ the following rules:

1. Only enacted law is considered. The Directors do not attempt to anticipate the outcome of legislation still working its way

through Congress. Enacted entitlement law, including any required COLA, is projected at the full estimated cost.

2. The Directors assume the expiration of tax laws and direct spending laws (such as entitlements) that are scheduled to expire during the fiscal year in question. The Act specifies that, not withstanding the general rule, excise taxes deposited into trust funds are not assumed to expire, and CCC crop price supports are not assumed to expire.

3. If a 12-month appropriation for a discretionary program has not been enacted, the Directors must use "prior year appropriations". This would include regular appropriations as modified by enacted supplementals or rescissions and the final sequestration order from the previous year, if any. Although a full-year continuing appropriation is counted, a temporary continuing appropriation is not considered for the purpose of the budget base.

4. In estimating outlays, the Directors do not consider any deferrals reported pursuant to the Impoundment Control Act.

5. The Directors do not alter their economic or technical estimating factors between the August and October snapshots. Therefore, changes in the budget base result only from newly enacted law or newly promulgated regulations.

The Directors are to assume that Federal pay levels will be as recommended by the President, but in the August report the assumed increase in pay may not be less than zero. Medicare payment increases for hospitals are based upon final regulations issued by the Health Care Financing Administration.

Budgetary Resources

The required reductions in outlays are not made directly; rather, they are to be achieved by the permanent cancellation of budget authority and other authority to obligate and expend funds—referred to under P.L. 99-177 as sequestration. For defense programs, sequesterable budgetary resources are new budget authority provided for the budget year and unobligated balances of budget authority provided in previous years. For nondefense programs, the sequesterable budgetary resources are new budget authority, new direct loan obligations, new loan guarantee commitments, obligation limitations, and spending authority as defined in section 401(c)(2) of the Congressional Budget Act of 1974 (spending authority not subject to the annual control of the appropriations process). Included in this definition of spending authority are all entitlements, federal payments financed by offsetting collections that are credited to budget accounts, and various permanent appropriations.

Not all budgetary resources are subject to sequestration. The Act creates four different categories of programs.

1. *Completely Exempt Programs.* Other than their Federal administrative costs, the following programs are completely exempt:

Net Interest;
Social Security retirement and disability;
Railroad Retirement Tier I (the Social Security equivalent);
Veterans Compensation and Pensions;
State Unemployment Compensation;
Earned Income Tax Credit;

Selected "Low-Income" programs: AFDC, SSI, Food Stamps, Child Nutrition, WIC, and Medicaid;

Federal power administrations: TVA, BPA, WAPA, SWAPA, SEAPA, and APA;

Postal Service Fund (but not the Federal subsidy);

Accounts paying claims against the U.S., including Claims, Judgments, and Relief Acts; Defense Claims; Payments to Copyright Owners; Eastern Indian Land Claims; Vietnam and U.S.S. *Pueblo* POW Claims; and Soldiers and Airmen's Home Claims;

Constitutionally protected salaries: Compensation of the President, and Salaries of Article III Judges.

Non-U.S. funds of three types: Foreign Military Sales Trust Fund; activities from private bequests, donations, or voluntary contributions; and appropriations for D.C. (but not the Federal subsidy);

Payments from one Federal account to another, since these do not constitute Federal outlays (primarily, sequestration of these resources can only occur once);

A few minor technical exemptions.

Programs now exempt as a result of amendments to Public Law 99-177 (See table 1 above).

2. *Partially protected programs.* These programs are of two types: COLA programs and Special Rule programs. The reductions are limited as described below:

COLA programs, also known as Automatic Spending Increases, may have their COLAs reduced or frozen but their benefit base is protected, that is, the COLAs may not become negative. The programs with automatic spending increases subject to sequestration by the Act as amended are the National Wool Act, Special milk program, and Vocational rehabilitation programs.

Special Rule programs may be cut by specified, limited percentages or amounts. This section describes these special rules.

Guaranteed Student Loan Program

The Act requires two changes in the guaranteed student loan (GSL) program to occur automatically under sequestration. First, the statutory factor for calculating the special allowances for lenders will be reduced by 0.40 percentage points in the first year of the loan. Second, a student's origination fee will increase by 0.50 percentage points. In both cases, sequestration affects only GSL loans made during the applicable fiscal year, but after the order is issued.

Foster Care and Adoption Assistance Programs

The Act limits the amount available for sequester in the foster care and adoption assistance programs to increases in foster care maintenance payment rates or adoption assistance payment rates taking effect during the current fiscal year.

Medicare

The sequestration reductions in the medicare program are to be achieved by reducing payment amounts for covered services. No

changes in co-insurance or deductible obligations are to be made, and covered services are unaffected under a sequestration order. Under such an order, each payment amount would be reduced by a maximum of 1 percent for fiscal year 1986 and 2 percent for each subsequent year in which there is sequestration, relative to whatever level of payment would otherwise be made under medicare law and regulation. The reduction would be proportionately reduced in any year in which the excess deficit is small enough to permit a smaller reduction.

Veterans' Medical Care and Other Health Programs

The Act limits reductions in budget authority for veterans' medical care, community and migrant health centers, and Indian health services and facilities to 1 percent in fiscal year 1986 and 2 percent in any subsequent fiscal year.

Child Support Enforcement Programs

In the child support enforcement (CSE) program, the Act provides that sequestration of entitlement payments to states, including incentive payments from the assistance payments account, is to be accomplished by reducing the federal matching rates for state administrative expenses.

Unemployment Compensation Programs

The Act provides that the following items are not available for sequester: regular state unemployment benefits, the state share of extended unemployment benefits, benefits paid to former federal employees and former members of the armed services, and loans and advances to the state and federal unemployment accounts. The federal share of extended benefits, federally paid benefits, including benefits paid under the Railroad Unemployment and Sickness Insurance program, and administrative expenses are available for sequester. The Act also provides that states may, without penalty, reduce their share of federal-state extended unemployment benefits if the federal share of benefits is reduced by a sequester order.

Commodity Credit Corporation

The Act requires that payments and loan eligibility under any contract entered into by the Commodity Credit Corporation (CCC) after a sequester order has been issued for a fiscal year be subject to a percentage reduction. The Act requires that reductions for all farm commodities supported by the CCC be made in a uniform manner, including all noncontract programs, projects, and activities within CCC's jurisdiction. The Act further stipulates that outlay reductions in the post-sequester year that are the result of contract adjustments in the sequester year should be credited to the overall outlay reduction required in the sequester year. The actual amount of savings realized in each year will depend upon how the sequester is implemented for the various CCC programs.

Federal pay

The Act provides that rates of pay for civilian employees (and rates of basic pay, basic subsistence allowances, and basic quarter allowances for members of the uniformed services), or any sched-

uled pay increases, may not be reduced pursuant to a sequestration order. Budgetary resources available for federal pay, however, will be subject to sequestration as part of the reduction of administrative expenses.

Insurance and Guaranteed Loan Programs

These programs may have their new activities subject to sequestration, but costs associated with insurance claims or with loan defaults are exempt. The Act identifies 46 such programs. In general, these programs support themselves through premiums, so that their net Federal cost is near zero.

For credit programs, the governing measures of sequesterable budgetary resources are direct loan obligations and loan guarantee commitments. The Act requires de facto limitations on both types of new credit activity. This was modified by amendment number 4 in Table 1.

Military personnel accounts

For 1986 only, the Act gave the President the authority to exempt all or part of the military personnel accounts from sequestration. The President has decided to use this authority and has exempted $63.1 billion, or 93 percent, of the 1986 appropriations for these accounts.

3. *Prior-year outlays from otherwise nonexempt programs.* Although these programs are subject to across-the-board sequestration, their prior-year outlays generally are not part of the calculations. Just about $100 billion in defense outlays, and a nearly identical amount in nondefense outlays, are thus excluded from the sequestration calculations. However, new funds for the programs in question are completely available for sequestration.

Specifically, for nondefense programs the Act removes from the calculations all outlays resulting from budgetary resources that were provided in prior fiscal years. Only new budgetary resources are sequesterable, and only the resulting "new" outlays are included in the calculations.

Existing contracts in defense programs can be terminated or modified to achieve outlay savings if such action would neither result in a net loss to the government nor violate the legal obligations of the government, and if the President notifies the Comptroller General and the Congress of proposed contract terminations and modifications by specified dates (January 15, 1986 for fiscal year 1986 and not later than September 5 for subsequent years). No defense contract terminations or modifications were proposed for 1986 sequestration reductions.

4. *Offsetting receipts.* These receipts are nontax income of the U.S. deposited in the Treasury's General Fund, and are accounted as "negative spending." An example is the income generated by Outer Continental Shelf Rents and Royalties. The Act exempts such income from sequestration calculations, since sequestration is intended to cut spending, not to increase user fees or speed up auction schedules.

Table 4 provides further detail on the OMB/CBO/GAO base level outlay estimates for 1986. About $110 billion of estimated 1986 outlays for defense programs, or 40 percent of total defense spending, are associated with budgetary resources subject to an across-the-board percentage reduction. The special 1986 exemption for military personnel accounts made by the President removed more than $60 billion in outlays from the sequesterable portion.

About $240 billion, or one-third of estimated outlays for nondefense programs, is associated with sequesterable budgetary resources. Nearly $50 billion in outlays are for programs with automatic spending increases, primarily federal employee retirement and disability programs. For these programs, the amount of spending reduction required by the Act is limited to the cost-of-living adjustments, which are generally 3.1 percent for 1986. Another $87 billion in outlays are associated with certain special rule programs, of which the largest is medicare. The Act also limits the extent of spending reductions for these programs. Only slightly more than $100 billion in estimated 1986 nondefense outlays—about 15 percent—are associated with budgetary resources subject to an across-the-board percentage reduction. Over $380 billion, or more than one-half of total estimated outlays for nondefense programs, are exempt from sequestration by the Act. As shown by Table 3, the major exempt program outlays are mostly for social security and net interest. The remaining portion of nondefense outlays, about $100 billion, results from budgetary resources provided in previous years or from prior legal obligations.

TABLE 3.—BASE LEVEL OUTLAY ESTIMATES FOR 1986

[In billions of dollars]

Category	OMB estimates	CBO estimates	OMB/CBO average	GAO
Defense Programs: [1]				
Subject to across-the-board reduction	106.2	112.4	109.3	110.3
Other [2]	164.7	162.1	163.4	.....
Subtotal, defense programs	270.9	274.6	272.8	.....
Nondefense Programs:				
Programs with automatic spending increases [3]	48.9	48.4	48.6	.....
Certain special rule programs [4]	87.0	87.1	87.1	.....
Subject to across-the-board reduction	104.3	106.1	105.2	105.6
Major exempt programs:				
Social security and railroad retirement tier 1	202.6	202.0	202.3	.....
Net interest	137.9	136.9	137.4	.....
Earned income tax credit	1.3	1.3	1.3	.....
Low-income programs [5]	60.9	61.1	61.0	.....
Veterans compensation and pensions	14.3	14.3	14.3	.....
State unemployment benefits	18.2	18.1	18.2	.....
Offsetting receipts	−50.2	−50.5	−50.4	.....
Other [6]	98.8	98.7	98.8	.....

TABLE 3.—BASE LEVEL OUTLAY ESTIMATES FOR 1986—Continued

[In billions of dollars]

Category	OMB estimates	CBO estimates	OMB/CBO average	GAO
Subtotal, nondefense programs	724.0	723.4	723.7	.....
Total	994.9	998.0	996.5	.....

[1] Budget function 050 excluding FEMA programs.
[2] Outlays from obligated balances and the portion of military personnel accounts exempted by the President for 1986.
[3] Primarily federal employee retirement and disability programs.
[4] Guaranteed student loans, foster care and adoption assistance, medicare, veterans medical care, community health, migrant health, and Indian health.
[5] AFDC, child nutrition, medicaid, food stamps, SSI, and WIC.
[6] Outlays from prior-year appropriations, certain prior legal obligations, and small exempt programs.

Sources: Congressional Budget Office, Office of Management and Budget, and General Accounting Office.

Sequestration Calculations

The Act establishes the following steps for the sequestration calculations. First, the deficit excess is calculated by subtracting the maximum amount from the estimated deficit in the budget base. One-half is assigned to defense programs (budget accounts in function 050) and the other half to nondefense programs.

Second, the total amount of outlay savings from eliminating automatic spending increases is calculated. Provided that the resulting savings are not more than one-half of the total required reduction, the automatic increases are eliminated. In 1986, one-half of the resulting savings for indexed retirement and disability programs are applied toward the required reduction amount for defense programs and the other half to nondefense programs. Since these programs were later exempted from sequestration, this step in the calculation no longer takes place (see Table 1). All savings from eliminating automatic spending increases in three other specific programs—the National Wool Act, the special milk program, and vocational rehabilitation—are applied to the required reduction in outlays for nondefense programs.

Third, the amount of outlay savings to be obtained by applying four special rules is calculated. These special rules are for guaranteed student loans, foster care and adoption assistance, medicare, and certain health programs, and are described in a later section of this report. The estimated savings from these four special rules are applied toward the required spending reductions in nondefense programs.

The remaining reductions in defense programs and nondefense programs must be taken on a uniform percentage basis, computed separately for each category. The uniform reduction percentages are computed from outlay estimates. The remaining outlay savings to be achieved in defense and nondefense spending are divided by the estimated outlays associated with sequesterable budgetary resources in each category. These uniform percentages are then applied to all of the remaining sequesterable budgetary resources

(budget authority, credit authority, and other spending authority) for defense and nondefense programs.

In the event that the Directors of OMB and CBO are unable to agree on any of these calculations, the Act requires that their estimates be averaged to the extent necessary to produce a single, consistent set of data that achieves the required deficit reduction.

Table 4 shows the 1986 OMB/CBO/GAO calculations and the averaged amounts for each of the steps described above. The total required outlay reduction for 1986 is $11.7 billion, one-half of which—$5,850 million—must be obtained from defense programs and the other half from nondefense programs. An estimated $994 million in outlay savings in 1986 can be achieved by eliminating the automatic spending increases scheduled for civil service, military, and other federal retirement and disability programs. Another $45 million in savings can be obtained by eliminating the automatic spending increases for vocational rehabilitation grants and the National Wool Act (the special milk program is also an indexed program but in 1986 the change in the price index is projected to be negative). The outlay savings for programs where the spending reductions are limited by special rules (guaranteed student loans, medicare, and so forth) are estimated to be $397 million.

After crediting one-half of the retirement cost-of-living adjustment (COLA) savings to defense programs, the remaining outlay reductions of $5,353 million in 1986 must be obtained by reducing new budget authority and unobligated balances by a uniform percentage. Since the bulk of the military personnel accounts have been exempted by the President from sequestration, 1986 outlays associated with sequesterable budgetary resources for defense programs are estimated to be only $106.2 billion by OMB and $112.4 billion by CBO. The average of these amounts is $109.3 billion. Thus, the uniform percentage to be applied to sequesterable defense budgetary resources is 4.9 percent. The uniform percentage to be applied to nondefense programs, after deducting the savings from one-half of the retirement COLAs and the special rule calculations, is 4.3 percent.

The OMB/CBO/GAO calculations generally assume that all nonexempt budgetary resources can be sequestered so as to produce outlay savings, including entitlement programs and other mandatory spending programs where the spending authority is not controlled through the annual appropriation process. In a few instances where the uniform percentage reduction of budgetary resources would not produce any outlay savings (for example, for credit programs where new direct loan limits are higher than expected program levels), no outlays were included in the sequester base used for calculating the reduction percentages.

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TABLE 4.—SEQUESTRATION CALCULATIONS FOR 1986

[Outlays in millions of dollars]

Category	OMB	CBO	OMB/CBO average	GAO
Defense programs:				
Total required reductions	5,850	5,850	5,850	5,850
Estimated savings from automatic spending increases:				
Indexed retirement programs [1]	496	497	497	497
Amount remaining to be obtained from uniform percentage reductions of budget resources	5,354	5,353	5,353	5,353
Estimated outlays associated with sequesterable budget resources	106,225	112,446	109,335	110,300
Uniform reduction percentage	5.0	4.8	4.9	4.9
Nondefense programs:				
Total required reductions	5,850	5,850	5,850	5,850
Estimated savings from automatic spending increases:				
Indexed retirement programs	496	497	497	497
Other indexed programs	45	45	45	45
Estimated savings from the application of special rules:				
Guaranteed student loans	10	10	10	10
Foster care and adoption assistance	5	5	5	5
Medicare	300	300	300	300
Other health programs	82	83	82	82
Amount remaining to be obtained from uniform percentage reductions of budget resources	4,912	4,911	4,912	4,912
Estimated outlays associated with sequesterable budget resources [2]	114,444	115,080	114,762	115,200
Uniform reduction percentage	4.3	4.3	4.3	4.3

[1] These retirement programs are not included in the national defense function of the budget; most are included in the income security function.

[2] Includes estimated 1987 outlays for the Commodity Credit Corporation (CCC) that can be affected by a 1986 sequester (see discussion of special rule for the CCC). The OMB estimate is $10,095 million, the CBO estimate is $8,940 million, and the average is $9,518 million.

Sources: Congressional Budget Office, Office of Management and Budget and General Accounting Office.

1987 Sequester Process

For fiscal year 1987, the Congress operated under the Act's "fallback" procedures. No joint sequester resolution was enacted for fiscal year 1987. According to estimates made in October 1986 by CBO and OMB, prior to the 99th Congress sine die adjournment, Congressional action had reduced the projected fiscal year 1987 deficit to $147.1 billion. The maximum deficit amount for fiscal year 1987 was $144 billion, plus a $10 billion margin, for a total allowable deficit level of $154 billion before a sequester would be required. Reestimates in January 1987 by both CBO and OMB project the fiscal year 1987 deficit to be approximately $175 billion.

Illustrative 1988 Calculations

In January 1987 CBO estimates a base deficit of $158 billion for fiscal year 1988. Since no fiscal year 1988 appropriations bills have been enacted, the base assumes outlays from fiscal year 1987 budget authority levels with no adjustment for inflation.

The major elements of calculations for the illustrative 1988 sequestration, using CBO's January economic assumptions, are shown in Table 5.

TABLE 5.—CALCULATING THE ILLUSTRATIVE SEQUESTRATION FOR 1988

[Outlays in billions of dollars]

Sequestration items	Defense programs	Nondefense programs
Total required reductions	25.0	25.0
Savings from eliminating automatic spending increases		(1)
Savings under special rules		1.5
Remaining reduction required	25.0	23.5
Sequestration outlay base	175.8	2 114.5
Uniform reduction percentage 3	14.2	20.5
Required spending authority reduction 4	48.5	45.6

1 Less than $50 million.

2 Includes $10.2 billion in estimated 1989 outlays for the Commodity Credit Corporation that can be affected by a 1988 sequestration.

3 Remaining required reductions divided by the sequestration outlay base.

4 Budget authority, obligation limitations, entitlement authority, and other section 401(e)(2) spending authority in the case of nondefense programs and budget authority and unobligated balances in the case of defense programs associated with the outlay reductions of $25.0 billion in defense programs and $23.5 billion in nondefense programs.

Source: Congressional Budget Office.

For each $10 billion change in the excess deficit, the reduction percentage for defense programs would change by about 2.8 percentage points, and for nondefense programs by about 4.4 percentage points.

Further Description of the Act

Budgetary resources further defined

Budgetary resources allow an agency's budget officer to incur financial obligations. Budgetary resources are the legal authority to sign binding service or procurement contracts, to hire personnel, to make grants, or to commit to any other payment required by law.

Budgetary resources are most commonly measured by new budget authority (usually called "BA"). Most new budget authority is provided in annual appropriation acts. The remainder is provided automatically by substantive law, and is called "permanent budget authority" or "permanent appropriations." But, for the purposes of the Act, budgetary resources go beyond new budget authority.

The Act treats defense programs differently from nondefense programs. For defense, the sequesterable budgetary resources are

(1) new budget authority, and (2) unobligated balances of prior budget authority.

For nondefense programs, there are five different types of budgetary resources that are subject to sequestration.

(1) new *budget authority*;

(2) gross levels of new *direct loan* obligations;

(3) other *obligation limitations* (generally, limitations on programmatic or administrative obligations from trust or revolving funds);

(4) "spending authority defined in Sec. 410(c)(2) of the Congressional Budget Act" (commonly known as "direct spending" or "*backdoor spending*)"; and

(5) new *loan guarantee* commitments.

Loan guarantee commitments are not considered to require budget authority or produce outlays, since they merely guarantee that one private party, a borrower, will repay a loan to another private party, a lender. However, if the borrower defaults the U.S. must bear the costs. Default payments are Federal outlays, but are exempt from sequestration.

Sequestration of loan guarantees reduces the government's contingent liability. In the long run, this would lead to lower default payments. Since most loan guarantee programs are self-financed (up-front premiums cover expected defaults), sequestration will have the shortrun effect of slightly reducing Federal income from premiums.

Programs with two types of budgetary resource are numerous. For example, the Federal-aid highway program receives new budget authority (in the form of contract authority) and has an obligation limitation. Many direct loan programs receive new budget authority (in the form of borrowing authority) though they are controlled by loan limitations. Some entitlements (a common form of backdoor spending) receive annual appropriations of budget authority in appropriation bills.

In general, if a program is controlled by both definite budget authority and another budgetary resource, then both budgetary resources are reduced through sequestration. If a program receives indefinite budget authority ("such amounts as may be necessary") but is controlled by a different budgetary resource, such as a direct loan limitation, then only the latter resource is directly reduced through sequestration. The amount of indefinite budget authority will automatically be reduced as a consequence, though not necessarily by the same amount or percentage.

Program, Project, or Activity (PPA). The Act requires that, in implementing sequestration, the President cut each "program, project, or activity" (PPA) within a budget account by the same percentage. There are single-purpose accounts as well as multi-purpose accounts. For example, the Budget Appendix lists eight "activities" within the Training and Employment Services account: Block Grant to States: Summer Youth Employment; Dislocated Worker Assistance; Native Americans; Migrant and Seasonal Farmworkers: Job Corps: Veterans Employment: and National Activities. The intent is that sequestration reduce each PPA by the same percentage.

The term "program, project, and activity" does not have a statutory definition. Instead, the Act specifies that, for accounts funded through annual appropriations, the term is to be defined each year in appropriation bills (perhaps through earmarks) or in their accompanying reports.

For both defense and nondefense accounts, the amounts cut from each PPA are not specified until the Presidential order and accompanying message are issued.

In applying the percentage reduction to each PPA, the President is not given new authority to alter the relative priorities in the Federal budget that are established by law and no person who is or becomes eligible for benefits under any provision of law shall be denied eligibility as a result of sequestration. For example, this meant that the reduction in low-income home energy assistance was not uniform across states because authorizing law for this program contained certain hold-harmless provisions.

Federal Administrative Costs

The Act provides that Federal administrative expenses incurred in connection with any program, activity, or account shall be subject to reduction under a sequester order. Any exemption, exception, limitation, or special rule is not intended to include these Federal administrative or operating expenses unless it does so by specific reference.

Under this provision, administrative or operating expenses of all the departments and agencies of the Federal government, including independent agencies, would be subject to reduction unless specifically exempted. This provision includes programs and agencies that are self-financing and that do not receive appropriations.

The term administrative or operating expenses is intended to include obligations for items such as personnel compensation, travel, transportation, communication, equipment, supplies, materials, and other services. It is not the intent of the conferees to include payments, loans, or other benefits resulting from prior legal obligations under the term administrative or operating expenses.

For purposes of this section, payments made by the Federal government to reimburse or match administrative costs incurred by State or local governments, such as the Federal matching payments for State AFDC, costs for State disability determination units, and Medicaid administrative expenses shall not be considered administrative expenses.

Congressional Response

In the Senate, a procedure would be established to allow the Senate Budget Committee to affirm, in whole or in part, the sequestration order issued after enactment of a joint sequestration resolution, and provide for a congressional response using a reconciliation-type process involving instructions to committees. The Senate Budget Committee would have the authority to include in a reconciliation bill pursuant to those procedures actual legislative language fulfilling the instruction to a committee which completely fails to comply.

These procedures are necessary to enable the Senate to respond quickly to an order by limiting debate and amendments which would not be limited under normal Senate procedures. Since the House has the ability to take legislation through the Committee on Rules, which can limit debate and amendments, there are no specific procedures for responding to an order.

Suspension by Joint Resolution in Case of Recession

The Act establishes a procedure for suspending certain of its provisions enforcing the MDA in the event of a recession. The Director of the Congressional Budget Office is required to notify Congress at any time if, during the quarter that notification is given, the quarter preceding notification, and the four quarters following such notification, CBO or OMB has determined that real economic growth is projected to be less than zero in any two consecutive quarters. The Director must also notify Congress if the Department of Commerce's preliminary reports or revisions of actual real economic growth indicate that the rate of real economic growth for the most recent reported quarter and the immediate preceding quarter is less than one percent.

Upon such notification, the Majority Leader of each House shall introduce a joint resolution declaring that the economic conditions specified are met and suspending the relevant provisions of the legislation for the remainder of the current fiscal year and for the following fiscal year. This provides an opportunity for the Congress to respond to the recession with a budget program outside the constraints of the Act for the recession and early recovery period. However, it is important to note that such a suspension does not modify the maximum deficit amounts and the timeframe for achieving a balanced budget in subsequent fiscal years.

Provisions suspended

The provisions of the Act which are suspended by the joint resolution are as follows:

1. The maximum deficit amount for the current fiscal year and the next fiscal year as it applies to Congressional budget resolutions and the President's budget submissions;
2. Points of order for the *current* fiscal year enforcing spending and revenue levels, and the maximum deficit amount in the Senate, established in the budget resolution for such year;
3. Points of order for the *next* fiscal year enforcing spending and revenue levels established in the budget resolution for such fiscal year, except that if a budget resolution for such year has not been agreed to before the introduction of the joint resolution, then these points of order will not be suspended. The points of order in the Senate for enforcing the maximum deficit level for the next fiscal year is suspended regardless of the status of the budget resolution for such fiscal year.
4. The issuance of any joint report by CBO and OMB reporting excess deficits, the issuance of any initial or final sequestration order by the President, and the operation of any initial sequestration order. However, a final sequestration order

issued prior to enactment of the joint resolution is not suspended.

Form of joint resolution

The form of the joint resolution is prescribed in the Act. The joint resolution introduced pursuant to this procedure is referred to the Committees on the Budget of both Houses. The joint resolution is to be reported by the Budget Committee to its House, without amendment, within five days after introduction. If the committee fails to report the joint resolution within the five-day period, it shall be automatically discharged from further consideration and the resolution will be placed on the appropriate calendar.

A vote on final passage of a joint resolution shall be taken within five days after it was reported or discharged. No amendment to a joint resolution is in order in either House of Congress.

When the joint resolution is agreed to, the Clerk of the House or the Secretary of the Senate engrosses, certifies, and transmits the joint resolution to the other House of Congress as soon as practicable. Expedited procedures for the consideration of the joint resolution are set forth for both the House and Senate.

JUDICIAL REVIEW

The Act authorizes expedited judicial review of constitutional questions raised by a Member of Congress or any other adversely affected person. Legal action may be brought by a Member of Congress in the United States District Court for the District of Columbia on the grounds that any sequestration order that might be issued violates the Constitution or that the Presidential sequestration order does not comply with requirements of the Act. The measure specifically provides that such an action will be heard by a three-judge panel of the U.S. District Court for the District of Columbia, and authorizes an immediate appeal to the U.S. Supreme Court.

Any order of the United States District Court for the District of Columbia which is issued pursuant to this section of the legislation is reviewable by appeal directly to the United States Supreme Court. An appeal is taken by filing a notice of appeal within 10 days after an order is entered; the jurisdictional statement must be filed within 30 days after an order is entered. A stay of an order issued pursuant to an action brought under this section cannot be issued by a single Justice of the Supreme Court. The United States District Court for the District of Columbia and the United States Supreme Court are required to advance on the docket and to expedite the disposition of matters brought under the legislation.

If a court of competent jurisdiction finally determines that an order issued by the President under the Act for any fiscal year does not comply with the sequestration procedures, the President must, within 20 days after such a determination is made, revise the order in accordance with the judicial determination. If the Presidential order does not comply with the sequestration procedures on the claim or defense that the constitutional powers of the President prevent such sequestration and such claim or defense is finally de-

termined by the United States Supreme Court to be valid, then the entire order for such fiscal year is null and void.

An order by a court granting declaratory or injunctive relief from a Presidential sequestration order, including relief permitting or requiring expenditure of sequestered funds, does not take effect during the pendency of the action or an appeal until the court has entered its final order disposing of the action.

Amendments to the Congressional Budget Act

In addition to establishing a new procedure, "sequestration," as part of the Executive and Congressional budget processes, the Act also substantially amended the existing budget process. Most of the reforms codify congressional budget practices that have evolved since the original Congressional Budget Act was adopted in 1974. However, some are designed to enforce the maximum deficit amounts set forth in the Budget Act.

The Act requires the President to submit a budget which does not exceed the maximum deficit amount for the applicable fiscal year. Further, congressional budget resolutions must also be within the maximum deficit amount of the applicable fiscal year. (This prohibition is enforced by points of order in the House and Senate.)

As noted earlier, the Act provides that a budget resolution cannot contain a deficit level in excess of the MDA for the applicable fiscal years. This prohibition applies to the committee-reported budget resolution, any amendments thereto, or conference report thereon. In the House, three-fifths of Members present and voting are required to waive this point of order against *a conference report* on a budget resolution. This is the only super-majority waiver requirement created by the Act applicable in the House of Representatives.

The revenues and disbursements of the Social Security program are included in the calculation of the deficit for purposes of the congressional budget resolution, the President's budget, and the excess deficit. For all other purposes Social Security is considered off-budget. A new point of order is established which prohibits any changes to the Social Security program to be included in a reconciliation bill pursuant to a budget resolution (this prohibition also applies to a Senate-originated response to sequestration).

The Budget Act is amended to establish spending controls at the subcommittee or program level. Legislation is subject to a point of order if it exceeds the appropriate committee's section 302(b) subdivision of new discretionary budget authority, new entitlement authority or credit authority. (In the Senate the point of order is based upon budget authority and outlays.) Under current law this subdivision is not binding.

Other amendments to the Budget Act codify existing congressional practices. For example, the Budget Act is amended to require adoption of only one annual budget resolution (although it may be revised at any time). The content of the resolution is expanded to include advisory budgetary levels for the two succeeding fiscal years, and reconciliation instructions for three fiscal years. Section 302(a) of the Budget Act is amended to reflect how the House and Senate Budget Committees technically allocate the spending au-

thority in the budget resolution to the committees of jurisdiction. In the House, a committee is "held harmless" from certain points of order if it is within its section 302(a) total allocation of new discretionary budget authority and new entitlement authority.

The scope of the budget process is expanded to establish binding levels on credit authority, to require new credit authority to be subject to the appropriations process, and to define new types of "backdoor" spending authority.

Finally, the timetable for the budget process is accelerated. In addition to the timetable below, House rules are amended to require early organization of the House.

CONGRESSIONAL BUDGET PROCESS TIMETABLE

On or before:	
First Monday after January 3 [1]	President submits his budget.
February 15	Congressional Budget Office submits report to Budget Committees.
February 25	Committees submit views and estimates to Budget Committee.
April 1	Senate Budget Committee reports concurrent resolution on the budget.
April 15	Congress completes action on concurrent resolution on the budget.
May 15	Annual appropriation bills may be considered in the House.
June 10	House Appropriations Committee reports last annual appropriation bill.
June 15	Congress completes action on reconciliation legislation.
Before July recess	House must complete action on all regular appropriation bills and reconciliation legislation before it can consider an adjournment resolution for more than 3 calendar days.
October 1	Fiscal year begins.

[1] Feb. 5 for FY 1987 budget submission.

APPENDIX N

EXCERPTS FROM THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974, AS AMENDED BY THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985 (PUBLIC LAW 99-177)

* * * * * * *

TITLE III—CONGRESSIONAL BUDGET PROCESS

TIMETABLE

SEC. 300. The timetable with respect to the congressional budget process for any fiscal year is as follows:

On or before:	Action to be completed:
First Monday after January 3	President submits his budget.
February 15	Congressional Budget Office submits report to Budget Committees.
February 25	Committees submit views and estimates to Budget Committees.
April 1	Senate Budget Committee reports concurrent resolution on the budget.
April 15	Congress completes action on concurrent resolution on the budget.
May 15	Annual appropriation bills may be considered in the House.
June 10	House Appropriations Committee reports last annual appropriation bill.
June 15	Congress completes action on reconciliation legislation.
June 20	House completes action on annual appropriation bills.
October 1	Fiscal year begins.

ANNUAL ADOPTION OF CONCURRENT RESOLUTION ON THE BUDGET

SEC. 301. (a) CONTENT OF CONCURRENT RESOLUTION ON THE BUDGET.—On or before April 15 of each year, the Congress shall complete action on a concurrent resolution on the budget for the fiscal year beginning on October 1 of such year. The concurrent resolution shall set forth appropriate levels for the fiscal year beginning on October 1 of such year, and planning levels for each of the two ensuing fiscal years, for the following—

(1) totals of new budget authority, budget outlays, direct loan obligations, and primary loan guarantee commitments;

(2) total Federal revenues and the amount, if any, by which the aggregate level of Federal revenues should be increased or decreased by bills and resolutions to be reported by the appropriation committees;

(3) the surplus or deficit in the budget;

(4) new budget authority, budget outlays, direct loan obligations, and primary loan guarantee commitments for each

major functional category, based on allocations of the total levels set forth pursuant to paragraph (1); and

(5) the public debt.

(b) ADDITIONAL MATTERS IN CONCURRENT RESOLUTION.—The concurrent resolution on the budget may—

(1) set forth, if required by subsection (f), the calendar year in which, in the opinion of the Congress, the goals for reducing unemployment set forth in section 4(b) of the Employment Act of 1946 should be achieved;

(2) include reconciliation directives described in section 310;

(3) require a procedure under which all or certain bills or resolutions providing new budget authority or new entitlement authority for such fiscal year shall not be enrolled until the Congress has completed action on any reconciliation bill or reconciliation resolution or both required by such concurrent resolution to be reported in accordance with section 310(b); and

(4) set forth such other matters, and require such other procedures, relating to the budget, as may be appropriate to carry out the purposes of this Act.

(c) CONSIDERATION OF PROCEDURES OR MATTERS WHICH HAVE THE EFFECT OF CHANGING ANY RULE OF THE HOUSE OF REPRESENTATIVES.—If the Committee on the Budget of the House of Representatives reports any concurrent resolution on the budget which includes any procedure or matter which has the effect of changing any rule of the House of Representatives, such concurrent resolution shall then be referred to the Committee on Rules with instructions to report it within five calendar days (not counting any day on which the House is not in session). The Committee on Rules shall have jurisdiction to report any concurrent resolution referred to it under this paragraph with an amendment or amendments changing or striking out any such procedure or matter.

(d) VIEWS AND ESTIMATES OF OTHER COMMITTEES.—On or before February 25 of each year, each committee of the House of Representatives having legislative jurisdiction shall submit to the Committee on the Budget of the House and each committee of the Senate having legislative jurisdiction shall submit to the Committee on the Budget of the Senate its views and estimates (as determined by the committee making such submission) with respect to all matters set forth in subsections (a) and (b) which relate to matters within the jurisdiction or functions of such committee. The Joint Economic Committee shall submit to the Committee on the Budget of both Houses its recommendations as to the fiscal policy appropriate to the goals of the Employment Act of 1946. Any other committee of the House of Representatives or the Senate may submit to the Committee on the Budget of its House, and any joint committee of the Congress may submit to the Committee on the Budget of both Houses, its views and estimates with respect to all matters set forth in subsections (a) and (b) which relate to matters within its jurisdiction or functions.

* * * * * * *

(g) COMMON ECONOMIC ASSUMPTIONS.—The joint explanatory statement accompanying a conference report on a concurrent resolution on the budget shall set forth the common economic assump-

tions upon which such joint statement and conference report are based, or upon which any amendment contained in the joint explanatory statement to be proposed by the conferees in the case of technical disagreement is based.

(h) BUDGET COMMITTEES CONSULTATION WITH COMMITTEES.—The Committee on the Budget of the House of Representatives shall consult with the committees of its House having legislative jurisdiction during the preparation, consideration, and enforcement of the concurrent resolution on the budget with respect to all matters which relate to the jurisdiction or functions of such committees.

(i) MAXIMUM DEFICIT AMOUNT MAY NOT BE EXCEEDED.[1]—

(1)(A) Except as provided in paragraph (2), it shall not be in order in either the House of Representatives or the Senate to consider any concurrent resolution on the budget for a fiscal year under this section, or to consider any amendment to such a concurrent resolution, or to consider a conference report on such a concurrent resolution, if the levels of total budget outlays for such fiscal year that is set forth in such concurrent resolution or conference report exceeds the recommended level of Federal revenues set forth for that year by an amount that is greater than the maximum deficit amount for such fiscal year as determined under section 3(7), or if the adoption of such amendment would result in a level of total budget outlays for that fiscal year which exceeds the recommended level of Federal revenues for that fiscal year, by an amount that is greater than the maximum deficit amount for such fiscal year as determined under section 3(7).

(B) In the House of Representatives the point of order established under subparagraph (A) with respect to the consideration of a conference report or with respect to the consideration of a motion to concur with or without an amendment or amendments, in a Senate amendment, the state of disagreement having been reached may be waived only by a vote of three-fifths of the Members present and voting, a quorum being present.

(2) Paragraph (1) of this subsection shall not apply if a declaration of war by the Congress is in effect.

COMMITTEE ALLOCATIONS

SEC. 302. (a) ALLOCATION OF TOTALS.—

(1) For the House of Representatives, the joint explanatory statement accompanying a conference report on a concurrent resolution on the budget shall include an estimated allocation, based upon such concurrent resolution as recommended in such conference report, of the appropriate levels of total budget outlays, total new budget authority, total entitlement authority, and total credit authority among each committee of the House of Representatives which has jurisdiction over laws, bills and resolutions providing such new budget authority, such entitlement authority, or such credit authority. The allocation

[1] Section 301(i) expires on September 30, 1991; P.L. 99-177, section 275(b)(2)(B). The point of order under this section may be waived or suspended in the Senate only by the affirmative vote of three-fifths of the Members, duly chosen and sworn; P.L. 99-177, section 271(b).

shall, for each committee, divide new budget authority, entitlement authority, and credit authority between amounts provided or required by law on the date of such conference report (mandatory or uncontrollable amounts), and amounts not so provided or required (discretionary or controllable amounts), and shall make the same division for estimated outlays that would result from such new budget authority.

(2) For the Senate, the joint explanatory statement accompanying a conference report of a concurrent resolution on the budget shall include an estimated allocation, based upon such concurrent resolution as recommended in such conference report, of the appropriate levels of total budget outlays, total new budget authority and new credit authority among each committee of the House of Representatives and the Senate which has jurisdiction over bills and resolutions providing such new budget authority.

(b) REPORTS BY COMMITTEES.—As soon as practicable after a concurrent resolution on the budget is agreed to—

(1) the Committee on Appropriations of each House shall, after consulting with the Committee on Appropriations of the other House, (A) subdivide among its subcommittees the allocation of budget outlays, new budget authority, and new credit authority allocated to it in the joint explanatory statement accompanying the conference report on such concurrent resolution, and (B) further subdivide the amount with respect to each such subcommittee between controllable amounts and all other amounts; and

(2) every other committee of the House and Senate to which an allocation was made in such joint explanatory statement shall, after consulting with the committee or committees of the other House to which all or part of its allocation was made, (A) subdivide such allocation among its subcommittees or among programs over which it has jurisdiction, and (B) further subdivide the amount with respect to each subcommittee or program between controllable amounts and all other amounts.

Each such committee shall promptly report to its House the subdivisions made by it pursuant to this subsection.

(c) POINT OF ORDER.[2]—It shall not be in order in the House of Representatives or the Senate to consider any bill or resolution, or amendment thereto providing—

(1) new budget authority for a fiscal year;

(2) new spending authority as described in section 401(c)(2) for a fiscal year; or

(3) new credit authority for a fiscal year;

within the jurisdiction of any committee which has received an appropriate allocation of such authority pursuant to subsection (a) for such fiscal year, unless and until such committee makes the allocation or subdivisions required by subsection (b), in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year.

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[2] Section 302(d) becomes effective April 15, 1986; P.L. 99-177, section 275(a)(2)(A).

(d) SUBSEQUENT CONCURRENT RESOLUTIONS.—In the case of a concurrent resolution on the budget referred to in section 304, the allocations under subsection (a) and the subdivisions under subsection (b) shall be required only to the extent necessary to take into account revisions made in the most recently agreed to concurrent resolution on the budget.

(e) ALTERATION OF ALLOCATIONS.—At any time after a committee reports the allocations required to be made under subsection (b), such committee may report to its House an alteration of such allocations. Any alteration of such allocations must be consistent with any actions already taken by its House on legislation within the committee's jurisdiction.

(f) LEGISLATION SUBJECT TO POINT OF ORDER.[3]—

(1) IN THE HOUSE OF REPRESENTATIVES.—After the Congress has completed action on a concurrent resolution on the budget for a fiscal year, it shall not be in order in the House of Representatives to consider any bill, resolution, or amendment providing new budget authority for such fiscal year, new entitlement authority effective during such fiscal year, or new credit authority for such fiscal year, or any conference report on any such bill or resolution, if—

(A) the enactment of such bill or resolution as reported;

(B) the adoption and enactment of such amendment; or

(C) the enactment of such bill or resolution in the form recommended in such conference report,

would cause the appropriate allocation made pursuant to subsection (b) for such fiscal year of new discretionary budget authority, new entitlement authority, or new credit authority to be exceeded.

(2) IN THE SENATE.—At any time after the Congress has completed action on the concurrent resolution on the budget required to be reported under section 301(a) for a fiscal year, it shall not be in order in the Senate to consider any bill or resolution (including a conference report thereon), or any amendment to a bill or resolution, that provides for budget outlays or new budget authority in excess of the appropriate allocation of such outlays or authority reported under subsection (b) in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year.

(g) DETERMINATIONS BY BUDGET COMMITTEES.[4]—For purposes of this section, the levels of new budget authority, spending authority as described in section 401(c)(2), outlays, and new credit authority for a fiscal year shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or the Senate, as the case may be.

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[3] Section 302(f) becomes effective April 15, 1986; P.L. 99-177, section 275(a)(2)(A). Until September 30, 1991 the point of order under this section may be waived or suspended in the Senate only by the affirmative vote of three-fifths of the Members, duly chosen and sworn; P.L. 99-177, section 271(b).

[4] Section 302(g) becomes effective April 15, 1986; P.L. 99-177, section 275(a)(2)(A).

CONCURRENT RESOLUTION ON THE BUDGET MUST BE ADOPTED BEFORE LEGISLATION PROVIDING NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY, NEW CREDIT AUTHORITY, OR CHANGES IN REVENUES OR THE PUBLIC DEBT LIMIT IS CONSIDERED

SEC. 303. (a) IN GENERAL.—It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution (or amendment thereto) as reported to the House or Senate which provides—

(1) new budget authority for a fiscal year;

(2) an increase or decrease in revenues to become effective during a fiscal year;

(3) an increase or decrease in the public debt limit to become effective during a fiscal year;

(4) new entitlement authority to become effective during a fiscal year; or

(5) new credit authority for a fiscal year,

until the concurrent resolution on the budget for such fiscal year has been agreed to pursuant to section 301.

(b) EXCEPTIONS.—Subsection (a) does not apply to any bill or resolution—

(1) providing new budget authority which first becomes available in a fiscal year following the fiscal year to which the concurrent resolution applies; or

(2) increasing or decreasing revenues which first become effective in a fiscal year following the fiscal year to which the concurrent resolution applies.

After May 15 of any calendar year, subsection (a) does not apply in the House of Representatives to any general appropriation bill, or amendment thereto which provides new budget authority for the fiscal year beginning in such calendar year.

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PERMISSIBLE REVISIONS OF CONCURRENT RESOLUTIONS ON THE BUDGET

SEC. 304. (a) IN GENERAL.—At any time after the concurrent resolution on the budget for a fiscal year has been agreed to pursuant to section 301, and before the end of such fiscal year, the two Houses may adopt a concurrent resolution on the budget which revises or reaffirms the concurrent resolution on the budget for such fiscal year most recently agreed to.

(b) MAXIMUM DEFICIT AMOUNT MAY NOT BE EXCEEDED.[5]—The provisions of section 301(i) shall apply with respect to concurrent resolutions on the budget under this section (and amendments thereto and conference reports thereon) in the same way they apply to concurrent resolutions on the budget under such section 301(i) (and amendments thereto and conference reports thereon).

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[5] Section 304(b) expires on September 30, 1991; P.L. 99-177, section 275(b)(2)(B). The point of order under this section may be waived or suspended in the Senate only by the affirmative vote of three-fifths of the Members, duly chosen and sworn; P.L. 99-177, section 271(b).

REPORTS, SUMMARIES, AND PROJECTIONS OF CONGRESSIONAL BUDGET ACTIONS

SEC. 308. (a) REPORTS ON LEGISLATION PROVIDING NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY, OR NEW CREDIT AUTHORITY, OR PROVIDING AN INCREASE OR DECREASE IN REVENUES OR TAX EXPENDITURES.—

(1) Whenever a committee of either House reports to its House a bill or resolution, or committee amendment thereto, providing new budget authority (other than continuing appropriations), new spending authority described in section 401(c)(2), or new credit authority, or providing an increase or decrease in revenues or tax expenditures for a fiscal year, the report accompanying that bill or resolution shall contain a statement, or the committee shall make available such a statement in the case of an approved committee amendment which is not reported to its House, prepared after consultation with the Director of the Congressional Budget Office—

(A) comparing the levels in such measure to the appropriate allocations in the reports submitted under section 302(b) for the most recently agreed to concurrent resolution on the budget for such fiscal year;

(B) including an identification of any new spending authority described in section 401(c)(2) which is contained in such measure and a justification for the use of such financing method instead of annual appropriations;

(C) containing a projection by the Congressional Budget Office of how such measure will affect the levels of such budget authority, budget outlays, spending authority, revenues, tax expenditures, direct loan obligations, or primary loan guarantee commitments under existing law for such fiscal year and each of the four ensuing fiscal years, if timely submitted before such report is filed; and

(D) containing an estimate by the Congressional Budget Office of the level of new budget authority for assistance to State and local governments provided by such measure, if timely submitted before such report is filed.

(2) Whenever a conference report is filed in either House and such conference report or any amendment reported in disagreement or any amendment contained in the joint statement of managers to be proposed by the conferees in the case of technical disagreement on such bill or resolution provides new budget authority (other than continuing appropriations), new spending authority described in section 401(c)(2), or new credit authority, or provides an increase or decrease in revenues for a fiscal year, the statement of managers accompanying such conference report shall contain the information described in paragraph (1), if available on a timely basis. If such information is not available when the conference report is filed, the committee shall make such information available to Members as soon as practicable prior to the consideration of such conference report.

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RECONCILIATION

SEC. 310. (a) INCLUSION OF RECONCILIATION DIRECTIVES IN CONCURRENT RESOLUTIONS ON THE BUDGET.—A concurrent resolution on the budget for any fiscal years, to the extent necessary to effectuate the provisions and requirements of such resolution, shall—

(1) specify the total amount by which—

(A) new budget authority for such fiscal year;

(B) budget authority initially provided for prior fiscal years;

(C) new entitlement authority which is to become effective during such fiscal year; and

(D) credit authority for such fiscal year, contained in laws, bills, and resolutions within the jurisdiction of a committee is to be changed and direct that committee to determine and recommend changes to accomplish a change of such total amount;

(2) specify the total amount by which revenues are to be changed and direct that the committees having jurisdiction to determine and recommend changes in the revenue laws, bills, and resolutions to accomplish a change of such total amount;

(3) specify the amounts by which the statutory limit on the public debt is to be changed and direct the committee having jurisdiction to recommend such change; or

(4) specify and direct any combination of the matters described in paragraphs (1), (2), and (3).

(b) LEGISLATIVE PROCEDURE.—If a concurrent resolution containing directives to one or more committees to determine and recommend changes in laws, bills, or resolutions is agreed to in accordance with subsection (a), and—

(1) only one committee of the House or the Senate is directed to determine and recommend changes, the committee shall promptly make such determination and recommendations and report to its House reconciliation legislation containing such recommendations; or

(2) more than one committee of the House or the Senate is directed to determine and recommend changes, each such committee so directed shall promptly make such determination and recommendations and submit such recommendations to the Committee on the Budget of its House, which upon receiving all such recommendations, shall report to its House reconciliation legislation carrying out all such recommendations without any substantive revision.

For purposes of this subsection, a reconciliation resolution is a concurrent resolution directing the Clerk of the House of Representatives or the Secretary of the Senate, as the case may be, to make specified changes in bills and resolutions which have not been enrolled.

(c) COMPLIANCE WITH RECONCILIATION DIRECTIONS.[6]—Any committee of the House of Representatives or the Senate that is directed, pursuant to a concurrent resolution on the budget, to determine and recommend changes of the type described in paragraphs (1)

[6] Section 310(c) becomes effective April 15, 1986; P.L. 99-177, section 275(a)(2)(A).

and (2) of subsection (a) with respect to laws within its jurisdiction, shall be deemed to have complied with such directions—

(1) If—

(A) the amount of the changes of the type described in paragraph (1) of such subsection recommended by such committee do not exceed or fall below the amount of the changes such committee was directed by such concurrent resolution to recommend under that paragraph by more than 20 percent of the total of the amounts of the changes such committee was directed to make under paragraphs (1) and (2) of such subsection, and

(B) the amount of the changes of the type described in paragraph (2) of such subsection recommended by such committee do not exceed or fall below the amount of the changes such committee was directed by such concurrent resolution to recommend under that paragraph by more than 20 percent of the total of the amounts of the changes such committee was directed to make under paragraphs (1) and (2) of such subsection; and

(2) if the total amount of the changes recommended by such committee is not less than the total of the amounts of the changes such committee was directed to make under paragraphs (1) and (2) of such subsection.

(d) LIMITATION ON AMENDMENTS TO RECONCILIATION BILLS AND RESOLUTIONS.[7]—

(1) It shall not be in order in the House of Representatives to consider any amendment to a reconciliation bill or reconciliation resolution if such amendment would have the effect of increasing any specific budget outlays above the level of such outlays provided in the bill or resolution (for the fiscal years covered by the reconciliation instructions set forth in the most recently agreed to concurrent resolution on the budget), or would have the effect of reducing any specific Federal revenues below the level of such revenues provided in the bill or resolution (for such fiscal years), unless such amendment makes at least an equivalent reduction in other specific budget outlays, an equivalent increase in other specific Federal revenues, or an equivalent combination thereof (for such fiscal years), except that a motion to strike a provision providing new budget authority or new entitlement authority may be in order.

(2) It shall not be in order in the Senate to consider any amendment to a reconciliation bill or reconciliation resolution if such amendment would have the effect of decreasing any specific budget outlay reductions below the level of such outlay reductions provided (for the fiscal years covered) in the reconciliation instructions which relate to such bill or resolution set forth in a resolution providing for reconciliation, or would have the effect of reducing Federal revenue increases below the level of such revenue increases provided (for such fiscal years) in such instructions relating to such bill or resolution,

[7] Section 310(d) becomes effective April 15, 1986; P.L. 99-177, section 275(a)(2)(A).

unless such amendment makes a reduction in other specific budget outlays, an increase in other specific Federal revenues, or a combination thereof (for such fiscal years) at least equivalent to any increase in outlays or decrease in revenues provided by such amendment, except that a motion to strike a provision shall always be in order.

(3) Paragraphs (1) and (2) shall not apply if a declaration of war by the Congress is in effect.

(4) For purposes of this section, the levels of budget outlays and Federal revenues for a fiscal year shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or of the Senate, as the case may be.

(5) The Committee on Rules of the House of Representatives may make in order amendments to achieve changes specified by reconciliation directives contained in a concurrent resolution on the budget if a committee or committees of the House fail to submit recommended changes to its Committee or the Budget pursuant to its instruction.

(e) PROCEDURE IN THE SENATE.—

(1) Except as provided in paragraph (2), the provisions of section 305 for the consideration in the Senate of concurrent resolutions on the budget and conference reports thereon shall also apply to the consideration in the Senate of reconciliation bills reported under subsection (b) and conference reports thereon.

(2) Debate in the Senate on any reconciliation bill reported under subsection (b), and all amendments thereto and debatable motions and appeals in connection therewith, shall be limited to not more than 20 hours.

(f) COMPLETION OF RECONCILIATION PROCESS.[8]—

(1) IN GENERAL.—Congress shall complete action on any reconciliation bill or reconciliation resolution reported under subsection (b) not later than June 15 of each year.

(2) POINT OF ORDER IN THE HOUSE OF REPRESENTATIVES.—It shall not be in order in the House of Representatives to consider any resolution providing for an adjournment period of more than three calendar days during the month of July until the House of Representatives has completed action on the reconciliation legislation for the fiscal year beginning on October 1 of the calendar year to which the adjournment resolution pertains, if reconciliation legislation is required to be reported by the concurrent resolution on the budget for such fiscal year.

(g) LIMITATION ON CHANGES TO THE SOCIAL SECURITY ACT.—Notwithstanding any other provision of law, it shall not be in order in the Senate or the House of Representatives to consider any reconciliation bill or reconciliation resolution reported pursuant to a concurrent resolution on the budget agreed to under section 301 or 304, or a resolution pursuant to section 254(b) of the Balanced Budget and Emergency Deficit Control Act of 1985, or any amend-

[8] Section 310(g) becomes effective April 15, 1986; P.L. 99-177, section 275(a)(2)(A). Until September 30, 1991, the point of order under this section may be waived or suspended in the Senate only by the affirmative vote of three-fifths of the Members, duly chosen and sworn; P.L. 99-177, section 271(b).

ment thereto or conference report thereon, that contains recommendations with respect to the old-age, survivors, and disability insurance program established under title II of the Social Security Act.

NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY, AND REVENUE LEGISLATION MUST BE WITHIN APPROPRIATE LEVELS

SEC. 311. (a) LEGISLATION SUBJECT TO POINT OF ORDER.—Except as provided by subsection (b), after the Congress has completed action on a concurrent resolution on the budget for a fiscal year, it shall not be in order in either the House of Representatives or the Senate to consider any bill, resolution, or amendment providing new budget authority for such fiscal year, providing new entitlement authority effective during such fiscal year, or reducing revenues for such fiscal year, or any conference report on any such bill or resolution, if—

(1) the enactment of such bill or resolution as reported;

(2) the adoption and enactment of such amendment; or

(3) the enactment of such bill or resolution in the form recommended in such conference report;

would cause the appropriate level of total new budget authority or total budget outlays set forth in the most recently agreed to concurrent resolution on the budget for such fiscal year to be exceeded, or would cause revenues to be less than the appropriate level of total revenues set forth in such concurrent resolution or, in the Senate, would otherwise result in a deficit for such fiscal year that exceeds the maximum deficit amount specified for such fiscal year in section 3(7) (except to the extent that paragraph (1) of section 301(i) or section 304(b), as the case may be, does not apply by reason of paragraph (2) of such subsection).[9]

(b) EXCEPTION IN THE HOUSE OF REPRESENTATIVES.—Subsection (a) shall not apply in the House of Representatives to any bill, resolution, or amendment which provides new budget authority or new entitlement authority effective during such fiscal year, or to any conference report on any such bill or resolution, if—

(1) the enactment of such bill or resolution as reported;

(2) the adoption and enactment of such amendment; or

(3) the enactment of such bill or resolution in the form recommended in such conference report;

would not cause the appropriate allocation of new discretionary budget authority or new entitlement authority made pursuant to section 302(a) for such fiscal year, for the committee within whose jurisdiction such bill, resolution, or amendment falls, to be exceeded.

(c) DETERMINATION OF BUDGET LEVELS.—For purposes of this section, the levels of new budget authority, budget outlays, new entitlement authority, and revenues for a fiscal year shall be determined on the basis of estimates made by the Committee on the

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[9] The portion of section 311(a) which begins with "or, in the Senate" and ends with "paragraph (2) of such subsection" expires on September 30, 1991; P.L. 99-177, section 275(b)(2). Until September 30, 1991, the point of order under this section may be waived or suspended in the Senate only by the affirmative vote of three-fifths of the Members, duly chosen and sworn; P.L. 99-177, section 271(b).

Budget of the House of Representatives or of the Senate, as the case may be.

TITLE IV—ADDITIONAL PROVISIONS TO IMPROVE FISCAL PROCEDURES

BILLS PROVIDING NEW SPENDING AUTHORITY [10]

SEC. 401. (a) CONTROLS ON LEGISLATION PROVIDING SPENDING AUTHORITY.—It shall not be in order in either the House of Representatives or the Senate to consider any bill, resolution, or conference report, as reported to its House which provides new spending authority described in subsection (c)(2) (A) or (B) (or any amendment which provides such new spending authority), unless that bill, resolution, conference report, or amendment also provides that such new spending authority as described in subsection (c)(2) (A) or (B) is to be effective for any fiscal year only to such extent or in such amounts as are provided in appropriation Acts.

(b) LEGISLATION PROVIDING ENTITLEMENT AUTHORITY.—

(1) It shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which provides new spending authority described in subsection (c)(2)(C) (or any amendment which provides such new spending authority) which is to become effective before the first day of the fiscal year which begins during the calendar year in which such bill or resolution is reported.

(2) If any committee of the House of Representatives or the Senate reports any bill or resolution which provides new spending authority described in subsection (c)(2)(C) which is to become effective during a fiscal year and the amount of new budget authority which will be required for such fiscal year if such bill or resolution is enacted as so reported exceeds the appropriate allocation of new budget authority reported under section 302(b) in connection with the most recently agreed to concurrent resolution on the budget for such fiscal year, such bill or resolution shall then be referred to the Committee on Appropriations of that House with instructions to report it, with the committee's recommendations, within 15 calendar days (not counting any day on which that House is not in session) beginning with the day following the day on which it is so referred. If the Committee on Appropriations of either House fails to report a bill or resolution referred to it under this paragraph within such 15-day period, the committee shall automatically be discharged from further consideration of such bill or resolution and such bill or resolution shall be placed on the appropriate calendar.

(3) The Committee on Appropriations of each House shall have jurisdiction to report any bill or resolution referred to it under paragraph (2) with an amendment which limits the total amount of new spending authority provided in such bill or resolution.

(c) DEFINITIONS.—

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[10] The original section 401 was amended in its entirety by P.L. 99-177, section 211.

(1) For purposes of this section, the term "new spending authority" means spending authority not provided by law on the effective date of this Act, including any increase in or addition to spending authority provided by law on such date.

(2) For purposes of paragraph (1), the term "spending authority" means authority (whether temporary or permanent)—

(A) to enter into contracts under which the United States is obligated to make outlays, the budget authority for which is not provided in advance by appropriation Acts;

(B) to incur indebtedness (other than indebtedness incurred under chapter 31 of title 31 of the United States Code) for the repayment of which the United States is liable, the budget authority for which is not provided in advance by appropriation Acts;

(C) to make payments (including loans and grants), the budget authority for which is not provided for an advance by appropriation Acts, to any person or government if, under the provisions of the law containing such authority, the United States is obligated to make such payments to persons or governments who meet the requirements established by such law;

(D) to forego the collection by the United States of proprietary offsetting receipts, the budget authority for which is not provided in advance by appropriation Acts to offset such foregone receipts; and

(E) to make payments by the United States (including loans, grants, and payments from revolving funds) other than those covered by subparagraph (A), (B), (C), or (D), the budget authority for which is not provided in advance by appropriation Acts.

Such term does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government.

(d) EXCEPTIONS.—

(1) Subsections (a) and (b) shall not apply to new spending authority if the budget authority for outlays which will result from such new spending authority is derived—

(A) from a trust fund established by the Social Security Act (as in effect on the date of the enactment of this Act);

(B) from any other trust fund, 90 percent or more of the receipts of which consist or will consist of amounts (transferred from the general fund of the Treasury) equivalent to amounts of taxes (related to the purposes for which such outlays are or will be made) received in the Treasury under specified provisions of the Internal Revenue Code of 1954.

(2) Subsections (a) and (b) shall not apply to new spending authority which is an amendment to or extension of the State and Local Fiscal Assistance Act of 1972, or a continuation of the program of fiscal assistance to State and local governments provided by that Act, to the extent so provided in the bill or resolution providing such authority.

(3) Subsections (a) and (b) shall not apply to new spending authority to the extent that—

(A) the outlays resulting therefrom are made by an organization which is (i) a mixed-ownership Government corporation (as defined in section 201 of the Government Corporation Control Act), or (ii) a wholly owned Government corporation (as defined in section 101 of such Act) which is specifically exempted by law from compliance with any or all of the provisions of that Act, as of the date of enactment of the Balanced Budget and Emergency Deficit Control Act of 1985; or

(B) the outlays resulting therefrom consist exclusively of the proceeds of gifts or bequests made to the United States for a specific purpose.

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OFF-BUDGET AGENCIES, PROGRAMS, AND ACTIVITIES

SEC. 406. (a) Notwithstanding any other provision of law, budget authority, credit authority, and estimates of outlays and receipts for activities of the Federal budget which are off-budget immediately prior to the date of enactment of this section, not including activities of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, shall be included in a budget submitted pursuant to section 1105 of title 31, United States Code, and in a concurrent resolution on the budget reported pursuant to section 301 or section 304 of this Act and shall be considered, for purposes of this Act, budget authority, outlays, and spending authority in accordance with definitions set forth in this Act.

(b) All receipts and disbursements of the Federal Financing Bank with respect to any obligations which are issued, sold, or guaranteed by a Federal agency shall be treated as a means of financing such agency for purposes of section 1105 of title 31, United States Code, and for purposes of this Act.

APPENDIX O

COMMITTEE ON WAYS AND MEANS, MARCH 15, 1985, AND FEBRUARY 25, 1986, REPORTS TO THE BUDGET COMMITTEE

COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, DC, March 6, 1985.

Hon. WILLIAM H. GRAY III,
Chairman, Committee on the Budget,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Ways and Means, as required by section 301(c) of the Congressional Budget Act of 1974, on those aspects of the Federal budget for fiscal year 1986 which fall within the Committee's jurisdiction.

In making this report, the Committee on Ways and Means wishes to express its deep concerns about national economic conditions in fiscal year 1986 and beyond. Large budget deficits have been projected, and we believe that serious bipartisan efforts must be made by the Congress to address them. Our huge trade deficits are also of concern.

We will work closely with the House leadership and the House Budget Committee in the development of a fiscal year 1986 budget that significantly reduces the Federal deficit. We will make every effort to comply with the outlay and revenue directives to the Committee which will be contained in the House budget resolution. The success of our effort will largely depend upon the ability of other committees in the House to comply with their directives.

I. Revenues.—The Congressional Budget Office estimates fiscal year 1986 revenues at $788 billion. As you are aware, the Committee has begun hearings on tax reform proposals. We will be engaged in thorough review of the entire Tax Code and will be considering the Administration's and other proposals designed to improve the tax system. In addition, the Committee will be reviewing a number of tax provisions which expire during calendar year 1985.

II. Outlays.—The Committee on Ways and Means has jurisdictional responsibility over a broad range of programs with budget outlays classified in several different functional categories. The President's budget contains some $4.7 billion in outlay reductions for fiscal year 1986, primarily in the Medicare program. In addition, there are several provisions which affect the Aid to Families with Dependent Children (AFDC) program; there is no reauthorization of the trade adjustment assistance program; there are premium increases in the Pension Benefit Guaranty Corporation (PBGC) and significant staff reductions in the Social Security Administration, Internal Revenue Service and the Health Care Financing Ad-

ministration. The Committee and our Subcommittees will carefully review the budget reduction proposals contained in the Administration's budget as well as alternative measures that will reduce Federal expenditures. We obviously will exercise our judgment about precisely where and how outlay reductions should be achieved.

As you are aware, the Federal Supplemental Compensation program expires on March 31, 1985. This program provides eight to fourteen additional weeks of unemployment benefits to individuals who have exhausted their regular unemployment compensation benefits. The Committee is engaged in a review of this program and will consider whether or not the program should be extended; and, if so, whether it should be modified to more carefully target benefits. The Committee also intends to consider the need to reauthorize the trade adjustment assistance program which expires on September 30, 1985.

As part of an overall budget deficit reduction effort, the Committee is deeply committed to the concept that outlay reductions be fair and not disproportionately affect any one group of individuals, families, or businesses.

In addition, the Committee authorizes appropriations for certain trade agencies and programs. The Administration has recommended significant cuts in some of these agencies, particularly in the Office of the U.S. Trade Representative and the U.S. Customs Service. The Committee will consider an authorization bill later this spring, but it is very likely that, in light of our growing trade deficit, the Committee will recommend higher funding levels than proposed by the Administration.

III. Public debt limit.—The Congressional Budget Office estimates that the fiscal year 1986 unified budget deficit will be $210 billion under current law. In the absence of any legislative action to reduce spending or increase revenue, the total deficit (including off-budget entities) is estimated by the CBO to be $220 billion which will require that the debt subject to statutory limit be increased to $2.128 trillion for the period ending September 30, 1986.

IV. Tax expenditures.—The report on tax expenditures of the staff of the Joint Committee on Taxation which serves as the Joint Committee's report to the Budget Committee and is designed to assist the Budget Committee in meeting its obligations under section 301(d)(c) of the Budget Act will be delivered to your offices as soon as it is printed.

V. Additional materials.—To assist the Budget Committee in carrying out its responsibilities and help it in making assessments concerning the specific recommendations within the jurisdiction of the Committee on Ways and Means, I am enclosing a copy of Ways and Means Committee Print 99-2 entitled, "Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means." In addition, a background document entitled, "Description of the Administration's Fiscal Year 1986 Budget Recommendations Under the Jurisdiction of the Committee on Ways and Means" will be delivered to your office as soon as it is printed. The latter document will contain an analysis of the Administration's revenue and outlay proposals within the jurisdiction of the Committee. This analysis will also include a description of current law, a detailed description of the proposal, CBO and Administra-

tion estimates of outlay savings and wherever possible the impact upon program beneficiaries or institutions. I hope you find this information useful. As always, the members of this Committee and its staff are available to answer any questions you may have on any aspect of this report.

With warm regards, I am,

Sincerely yours,

DAN ROSTENKOWSKI, *Chairman.*

COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, DC, February 19, 1986.

Hon. WILLIAM H. GRAY III,
Chairman, Committee on the Budget,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: This letter transmits the views and estimates of the Committee on Ways and Means, as required by section 301(d) of the Congressional Budget Act of 1974, on those aspects of the Federal budget for fiscal year 1987 which fall within the Committee's jurisdiction.

In making this report, the Committee on Ways and Means wishes to express its deep concern about national economic conditions in fiscal year 1987 and beyond. Large budget deficits have been projected, and we believe that serious bipartisan efforts must be made by the Congress and the President to address them.

The huge U.S. trade deficit of nearly $150 billion in 1985 is also of concern and has resulted, in large part, from the effect of the U.S. fiscal deficit on interest rates and the value of the U.S. dollar, making it extremely difficult for U.S. companies to compete in the world marketplace. The trade deficit has also been exacerbated by a number of trade barriers maintained by foreign governments which are significantly reducing U.S. export opportunities. You will be pleased to know that the Committee on Ways and Means anticipates working on comprehensive trade reform legislation which will effectively address these foreign trade barriers, make U.S. trade laws more effective in combatting unfair trade practice, and provide the authority for a new round of multilateral trade negotiations while encouraging international discussions on monetary reform. We strongly believe that this legislation will pass the Congress this year and result in a significant reduction of our trade deficit. Such legislation should have a positive, but at this time, unquantifiable effect on our budget deficit as well.

We will work closely with the House leadership and the House Budget Committee in the development of a fiscal year 1987 budget that significantly reduces the Federal deficit. We will make every effort to comply with the outlay and revenue directives to the Committee which will be contained in the House budget resolution.

I. Revenues.—The Congressional Budget Office estimates fiscal year 1987 revenues at $844 billion. Last year, the House passed H.R. 3838, the Tax Reform Act of 1985. This year we expect to pass a conference report on tax reform. One principle that will be maintained is that the final legislation will be revenue neutral as compared to current law. We take note of the fact that the President's budget contains numerous receipt proposals which increase revenues by $6.3 billion; some $3.0 billion of these provisions do not appear to be within the legislative jurisdiction of this Committee.

We would also note that a version of one of the receipt proposals recommending an IRS cost of collection charge has already been approved and incorporated in H.R. 3838. Therefore, the three-year savings of approximately $1.1 billion should not be double-counted.

II. Outlays.—The Committee on Ways and Means has jurisdictional responsibility over a broad range of programs. The President's budget contains some $6.0 billion in outlay reductions for fiscal year 1987 in these programs, primarily in the medicare program. In addition, there are several provisions which affect the Aid to Families with Dependent Children (AFDC) program; there is no reauthorization of the trade adjustment assistance programs; there are premium increases for the Pension Benefit Guaranty Corporation (PBGC); and significant new proposed user fees in the Customs Service and the Internal Revenue Service. The Committee and our Subcommittees will carefully review the budget reduction proposals contained in the Administration's budget as well as alternative measures that will reduce Federal expenditures. We obviously will exercise our judgment about precisely where and how the outlay reductions should be achieved.

The Committee wishes to express its concern about the size of the proposed medicare reductions. For example, the Committee recognizes that indirect medical education payments should be reduced; and under last year's reconciliation bill, three year savings of $1.7 billion would be achieved. The Administration, however, proposes a substantially larger savings of $3.8 billion in this area, which may not be a realistic or appropriate reduction.

The Administration also proposes to increase part B medicare premiums substantially and to significantly increase out-of-pocket costs for beneficiaries. Furthermore, it also proposes to institute by regulation a new reimbursement system for hospital capital and to reduce physician reimbursement for certain procedures. The three-year savings for these proposals is approximately $14 billion. While the Committee will work diligently in this area, it may not be reasonable to expect providers or beneficiaries to absorb the level of reductions proposed by the Administration in the medicare program.

The Committee also intends to consider the need to authorize the trade adjustment assistance program which expired on December 19, 1985.

In addition, the Committee authorizes appropriations for certain trade agencies and programs. The Administration has recommended significant cuts in some of these agencies, particularly in the Office of the U.S. Trade Representative and the U.S. Customs Service. The Committee will consider an authorization bill later this spring, but it is very likely that, in light of our growing trade deficit, the Committee will recommend higher funding levels than proposed by the Administration.

Turning to a related matter, we would urge your Committee to reject the Administration's proposal to impose users' fees on virtually all Customs' transactions. Although this proposal is appealing on its face because it would result in additional receipts of over $500 million per year, the proposal is extremely controversial and has a number of problems associated with it. During our consideration of this proposal last session, the House Committee on Ways

and Means and Senate Committee on Finance opted for a more modest users' fee proposal in the Deficit Reduction Amendments of 1985 (H.R. 3128) which would assess fees only on arriving passengers and conveyances but not on merchandise, resulting in annual revenues of about $200 million per year. Although this, too, was controversial, it avoided many of the problems inherent in the Administration's more comprehensive proposal. We would, therefore, urge you to drop either the Customs' user fee concept entirely or at the very least adopt the more modest approach endorsed by this Committee last year.

As part of an overall budget deficit reduction effort, the Committee is deeply committed to the concept that outlay reductions be fair and not disproportionately affect any one group of individuals, families, or businesses.

III. Public debt limit.—The Congressional Budget Office estimates that the fiscal year 1987 unified budget deficit will be $181 billion under current law. In the absence of any legislative action to reduce spending or increase revenue, the debt subject to statutory limit will need to be increased to $2.358 trillion for the period ending September 30, 1987.

IV. Additional materials.—As has been our tradition to assist the Budget Committee in carrying out its responsibilities and help it in making assessments concerning the specific recommendations within the jurisdiction of the Committee on Ways and Means, I will send a copy of a Ways and Means Committee Print entitled, "Background Material and Data on Progams Within the Jurisdiction of the Committee on Ways and Means; 1986 edition" and a document entitled, "Description of the Administration's Fiscal Year 1987 Budget Recommendations Under the Jurisdiction of the Committee on Ways and Means." They will be delivered to your office as soon as they are printed. The latter document will contain an analysis of the Administration's revenue and outlay proposals within the jurisdiction of the Committee. This analysis will also include a description of current law, a detailed description of the proposal, CBO and Administration estimates of outlay savings and wherever possible the impact upon program beneficiaries or institutions. I hope you find this information useful. As always, the members of this Committee and its staff are available to answer any questions you may have on any aspect of this report.

With warm regards, I am,

Sincerely yours,

DAN ROSTENKOWSKI, *Chairman.*

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